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SVB, CHATGPT AND THE FUTURE OF TRUST: THE BITCOIN MOMENT

By Jordi Visser, President & CIO

On Wednesday, March 8, 2023, a Silicon Valley Bank (SVB) bond maturing in 2033 was trading at $88 and yielding about 6% with the stock price at $267. On Friday, March 10th, the stock never opened. By Monday the 13th, SVB was gone, with the government quickly scrambling to guarantee depositors and trying to stop contagion from spreading throughout the important regional banking system across the country. I traded emerging markets during the 1990s and remember the Great Financial Crisis (GFC) very well. In neither of those chaotic markets do I remember seeing the dramatic speed of the pendulum shift in sentiment that we all saw in March 2023. In the first two months of 2023, the KBW bank index outperformed the SPX by over 5% and then in March it underperformed by close to 28% for the month. It was the 2nd worst month for the banks on that measure in the 30-year history of the KBW bank index, only surpassed by a month after Lehman during the GFC.

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Historically, banks falling in this way leads to a credit contraction and slowing growth. Trust in banks is critical to deposits and money creation within the fractional reserve banking system. On January 31st, weeks before SVB, Forbes published an article titled, "Why Trust Is the Most Powerful 5-Letter Word in Banking." Weeks after SVB, we now sit waiting to see the impact of people questioning the stability of their banks across the country and whether the FDIC can guarantee all banks if a similar issue happens.

"You're thinking of this place all wrong. As if I had the money back in a safe. The money's not here." George Bailey

In March, during the worst of the bank panic, one thing I noticed was how many times I heard people reference the movie “It's a Wonderful Life”. Aside from the holiday season, I don't remember anyone talking about Uncle Billy, but his name was brought up often since March 13th. This movie is the most familiar bank-run reference for Americans. Whenever It's a Wonderful Life is brought up for financial markets, it is not a wonderful time. This time it was not about people physically running from their houses to the bank to get their money. It was about Twitter, Reddit, text messages, and digital money withdrawals. Just like with GameStop in January 2021, the financial markets were being impacted by the speed of technological disruption allowing for information to spread like wildfires out of control, leading to an almost immediate herd mentality run for an exit in a crowded movie theater.

"Today you don't even print the money. Most money is not even printed. It's just electronic data. The basic material from which you make money is human trust." Yuval Noah Harari

As economists and strategists debate the impact on the economy and assets post SVB, I think there is a much bigger question to think about. After watching how the Fed and government printed money during the pandemic, there is no doubt that they can match the speed of technology and stop any fall in the economy based on the tools acquired during the GFC if they are allowed and decide to do it. Ben Bernanke said he would throw money out of a helicopter if needed. There was no need for the helicopter in 2020 as all you needed was to print money directly into your bank account, and you did not need to leave your couch to take it and order from Amazon and DoorDash and have people deliver everything to you. You could buy houses without physically seeing them. It should not be a surprise to anyone that the same speed could be used to take money out of a bank while on your couch. However, not everyone could get their money out, and on Friday, March 10th, many depositors in SVB had no idea what would happen to their money the following week. In the end, the Fed and Treasury were able to handle this one situation. Still, this new digital banking reality in the post-pandemic liquidity-infused world is part of the anxiety others do not want to experience. This psychological reality is a much more complex problem for the Fed and the printing press to solve. Trust has been broken. Regardless of the debate on the economy in the future, the scary question that remains in the aftermath is what needs to happen to regain trust in people with regards to the banks where the money is deposited and the government's ability to insure all deposits in the next episode?

"Money in fact is the most successful story ever invented and told by humans, because it is the only story everybody believes. Not everybody believes in God, not everybody believes in human rights, not everybody believes in nationalism, but everybody believes in money." Yuval Noah Harari

Before SVB, deposits were already leaving banks in a way not seen in history, but trust was not the issue. They were leaving for higher rates of return as the Fed raised interest rates and started quantitative tightening. I lived in Brazil in the late 1990s and saw firsthand the trust issue with banks. Individuals still had PTSD from the hyperinflation driven 1990 government-driven bank account seizures. Ironically, while money was being printed and digitally distributed during the pandemic around the globe, former Brazilian President Collor de Mello apologized for the 1990s seizure in May 2020 during covid. My experience in Brazil is why, in my opinion, the PTSD from something like SVB should not be minimized. This may have not been a seizure, but in the span of 24 hours, to go from "I have money in one of the largest banks in the US" to "there is a chance I will not have your money the following week," has a similar psychological impact given the extreme shock of the event. With technology allowing information to spread quickly, anyone who has listened to a podcast on what happened with SVB has learned about uninsured deposits, FDIC insurance, and has heard the debate going on in Washington regarding how to handle the next one. They have also heard how the Fed balance sheet has increased ahead of an upcoming polarized political debate on the debt ceiling. Money needs trust; the banks are the gatekeepers of the deposits and, ultimately, trust, which was challenged in March. No matter what survey you look at, trust in the government, the news or media and large corporations has been declining for years, so when you add the banks and deposits, the foundation of the house of capitalism seems to be old, vulnerable, and doubted at the moment.

"Bitcoin is not for making money. Bitcoin is for saving money. It is not an inflation hedge. It is a hyperinflation hedge. The world once ran on gold. It will soon run once again on digital gold." Balaji Srinivasan

As trust breaks down in money and in the institutions that act as the pillars of the capitalist system, Balaji Srinivasan, the former Chief Technology Officer at Coinbase, came out publicly and made a bet that bitcoin will rise to $1mm within 90 days due to hyperinflation. It currently sits just below $30,000. I don't care about the merits or reasons of the prediction, but I do care about the concept he brought forward in his book, The Network State: How to Start a New Country, and his timing coinciding with SVB. Over the last couple years, I have repeatedly stated on the In Search of Green Marbles podcast that rather than try to think of bitcoin as a replacement for the dollar or another currency, I see Bitcoin, cryptocurrencies, Web 3.0, the blockchain, the metaverse and decentralization in general as all part of a newly emerging country that continues to attract global capital and talent from the fiat Ponzi scheme as trust in its foundational elements breaks down, and gradually each day former fiat believers grow more concerned with various examples of the risks of centralization. With over $400 trillion of net worth in the fiat world vs. less than $2 trillion in the crypto world, as trust breaks down in the fiat world, it should lead to more people looking for a "new country" with new opportunities and new money or at least a hedge against a peak and decline in fiat trust. At the end of 2022, the household net worth in the US was just under $150 trillion, with about $18 trillion in deposits supporting this tower of leverage. With deposits and trust in the banking system declining, it puts pressure on this already leaning Jenga tower from the base, forcing the Fed to respond to support it. This gives people a reason to look for alternatives, at least partially as insurance against the tower falling.

"For the past two decades, trust has been touted as the all-powerful lubricant that keeps the economic wheels turning and greases the right connections—all to our collective benefit. Popular business books proclaim the power and virtue of trust. Academics have enthusiastically piled up study after study showing the varied benefits of trust, especially when it is based on a clear track record, credible expertise, and prominence in the right networks." Richard Kramer, Harvard Business Review June 2009

This Harvard Business Review passage came out in June 2009 after Madoff and after the worst of the Great Financial Crisis. It was also written less than a year after the Bitcoin white paper was released in October 2008. It included this line, "What is needed is an electronic payment system based on cryptographic proof instead of trust." In 2011 in Israel, the book Sapiens by Yuval Noah Harari was released. It included this line, "Homo sapiens rules the world because it is the only animal that can believe in things that exist purely in its own imagination, such as gods, states, money, and human rights." In July 2008, the app store launched, ushering in the start of mobile banking and allowing for, as House Financial Services Chair Patrick McHenry described SVB as, "the first Twitter-fueled bank run." Technology, banking, and trust are interconnected. The birth of Bitcoin occurred during the period of mistrust of the banking system, but that was before mobile banking, and the smartphone became our fifth appendage. Post-SVB, I believe many more homo sapiens of the world will be even more open to accepting the concept in the Bitcoin white paper for a trustless system.

"Artificial intelligence (AI) is poised to fundamentally challenge the way we establish trust and credibility in our society." – Newsweek, Feb 2023 "AI and the Collapse of Societal Trust"

At the same time that the SVB event in March has changed the way we trust banks, artificial intelligence has accelerated with the November 2022 release of ChatGPT, which is estimated to have reached over 100 million monthly active users in just two months after launch, which would make it the fastest-growing consumer app in history. If you type "ChatGPT trust" in a Google search, you will get endless rabbit holes to dive down. If you type "ChatGPT trust" and add a third word like homework, essay, email, voicemail, text message, music, art, books etc., you will see how quickly ChatGPT and, specifically AI, has and will impact trust going forward. For example, by mid-February, there were already over 200 books on Kindle with ChatGPT listed as the author or co-author. We don't know how many there are overall because those are the ones with ChatGPT listed. The point is AI is going to continue to blur the line between reality and fiction and the physical and virtual world, making trust and authenticity even more challenging.

"Could AI Change the Way We Think About Authenticity?" – Columbia University ACT Lab, July 2017

In July 2017, the Columbia University Authenticity, Choice, and Technology (ACT) Lab published an article titled, "Could AI Change the Way We Think about Authenticity." Four months later, one of the great stories about authenticity in the fiat world occurred. In November 2017, the most expensive painting ever sold was purchased at a Christie's auction for $450 million. It was the Salvator Mundi. In 1958, the artwork was sold for just £48 pounds. In 2005, it was discovered in New Orleans. In 2011, it was "authenticated" as a painting by Leonardo da Vinci. If you want to see how a painting can be authenticated almost 600 years after the painter dies, watch the documentary "The Lost Leonardo" and you will be back at the homo sapiens' love of stories. As we move forward with AI, 3d printers, and nanotechnology, the authenticity of anything will become more complex and the need for authenticity will grow at the expense of stories. The blockchain and Bitcoin will benefit from the acceleration of AI.

"Do not go where the path may lead, go instead where there is no path and leave a trail." Ralph Waldo Emerson

We are quickly approaching the 15th anniversary of the Bitcoin white paper. Despite being the OG of the cryptocurrency world and just one year younger than the 5th appendage iPhone, bitcoin is still doubted as something that should be in investment portfolios. Anytime bitcoin falls, the cries of a ponzi scheme and too volatile to own come out. People bring up FTX, but for every FTX in the young, developing crypto world, there are many WeWorks, SVBs, Madoffs, and Enrons in the older leveraged fiat world. As Yuval Noah Harari said, "Homo sapiens is a storytelling animal that thinks in stories rather than in numbers or graphs." Well, I love numbers and facts more than stories. Last year bitcoin was down 64%, but at the same time, the much-loved ARKK Innovation ETF was down 67% and Amazon was down 50%. Bitcoin bottomed in late November 2022, nine days before the release of ChatGPT. Since March 10th, the Friday before the SVB weekend, bitcoin has rallied as much as 40%. Goldman Sachs recently published a report with bitcoin as the best-performing asset so far this year on multiple risk-adjusted measures. Morningstar recently highlighted that over the past year, if you had a 1% position in bitcoin in the equity bucket of a 60/40 portfolio, you would have been down 8.93% vs 8.77% for a traditional 60/40 portfolio. If you looked back over the last 10 years, that portfolio with 1% bitcoin would have been 13.33% vs. 7.8% annually. If you had a 2% allocation, you would have had annualized gains of over 18%. Past performance is not a guarantee of future performance, but 10 years of a track record is also not a story.

Trust in the stories of the pillars of the fiat system is breaking down. Each day, the belief in the government’s ability to keep the leaning tower of leverage from falling is driving talent and capital to a new path in the cryptocurrency world. I think AI and the deposit flight in the banking system are both moments that will accelerate this distrust and be a significant inflection point for the Bitcoin story told in the decades to come.

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About Weiss:

More than a market neutral pioneer, Weiss invests in people, partnerships, and a purposeful future. Our mission is to make our expertise in alternatives universally accessible. Jordi Visser is the President and CIO of Weiss. He joined the firm in 2005. Jordi has over 30 years of experience in the investment and finance industry. At Weiss, Jordi oversees the portfolio managers and is responsible for the overall risk aggregation. Additionally, he is the architect and a portfolio manager for the Weiss Alternative Multi-Strategy Fund (Ticker: WEISX), a strategy that reflects the firm's market neutral approach and the desire to make its expertise in alternatives universally accessible. Jordi is the host of the video series, "Real-Time with Jordi Visser" and a lead contributor to the firm's podcast, "In Search of Green Marbles." Prior to joining Weiss, Jordi was the founding Managing Partner of Anchor Point Asset Management, a global macro hedge fund, and a former Managing Director at Morgan Stanley where he held various senior management roles. Jordi has been featured as a guest speaker on various popular podcasts and media outlets. Jordi is a magna cum laude graduate of Manhattan College and a Board Member of the School of Business at Manhattan College.