Are your clients happy?

Recently we have seen clients being disappointed by the markets, especially those with an inception date around the start of 2020. Whilst the cumulative return in TAM Europe's balanced portfolio was still over 6% from Q1 2020 (net of TAM fees), investing via bonds or trusts starts to eat away at this 2% yearly due to the additional charges that arise via these vehicles.

Using bonds and trustees is sometimes essential to the client's financial plans. However, when it is not essential, in this modern market it is worth considering going direct with TAM Europe. This can make a huge difference to the long-term trading costs, not to mention the 50 to 90 basis points a year that is an additional cost to the portfolio.

Our team calculated that over a five-year period, this could have an impact of as much as a 35% negative return on a portfolio of €100,000.

Using a unitised collective can avoid most of these charges, whether you are invested in a bond or invested directly. It can also bring the portfolio cost down substantially; for example, TAM Europe's multi-asset fund has 15bp AMC… that is not a typo, the AMC really is 15bp.

Clients must understand the importance of being in the market, and as everyone reading this will know, it is all about time in the market, not timing the market. If a portfolio misses the best five performance days in the market every year for a twenty-year period, it will almost halve your gains on a portfolio. Miss the best twenty days and the portfolio suffers more than threefold.

Clients who are unhappy with the state of the markets must also understand that in the last 100 years there have only been five occasions where the S&P 500, bonds, and a 40/60 portfolio have been in negative correlation simultaneously.

So, what is the solution? We believe it is to save the client money. The worst decision a client can make is to withdraw their capital when the markets are down, then miss the recovery when they come back up.

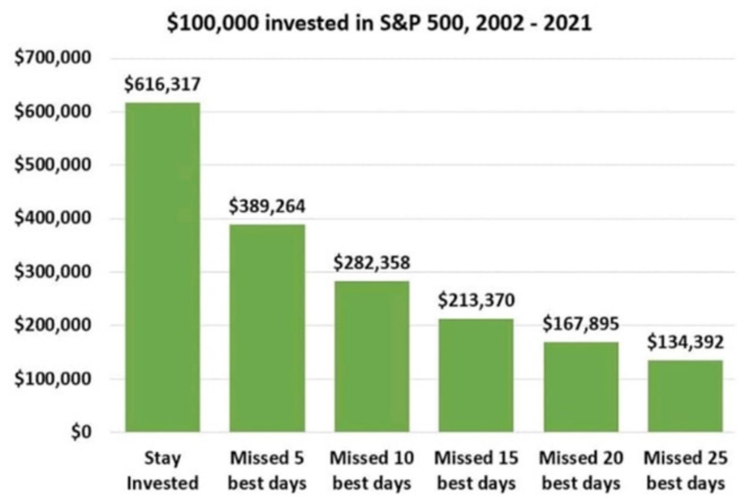
One cannot predict the markets, but that said, one could control the amount the client pays to be in the market, which could be the key difference between negative and positive portfolio returns.

TAM Europe has several options to help clients save money, such as competitive AMCs for our managed portfolio service and multi-asset fund, of just 0.3% and 0.15% respectively, and access to super-institutional share classes keeping our OCFs as low as possible (currently 0.4% for a balanced portfolio).

With the markets currently as they are, value for money has never been more important in trying to keep your clients happy.

For more information, please contact **tom.worthington@tameurope.com**

The cost of missing the market's best days



Source: BlackRock

S&P 500, US 10-Year Treasury, and 60/40 Portfolio (Total Returns, 1928 - 2022)

Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40
1928	43.8%	0.8%	26.6%	1947	5.2%	0.9%	3.5%	1966	-10.0%	2.9%	-4.8%	1985	31.2%	25.7%	29.0%	2004	10.9%	4.5%	8.3%
1929	-8.3%	4.2%	-3.3%	1948	5.7%	2.0%	4.2%	1967	23.8%	-1.6%	13.6%	1986	18.5%	24.3%	20.8%	2005	4.9%	2.9%	4.1%
1930	-25.1%	4.5%	-13.3%	1949	18.3%	4.7%	12.8%	1968	10.8%	3.3%	7.8%	1987	5.8%	-5.0%	1.5%	2006	15.8%	2.0%	10.3%
1931	-43.8%	-2.6%	-27.3%	1950	30.8%	0.4%	18.7%	1969	-8.2%	-5.0%	-7.0%	1988	16.6%	8.2%	13.3%	2007	5.5%	10.2%	7.4%
1932	-8.6%	8.8%	-1.7%	1951	23.7%	-0.3%	14.1%	1970	3.6%	16.8%	8.8%	1989	31.7%	17.7%	26.1%	2008	-37.0%	20.1%	-14.2%
1933	50.0%	1.9%	30.7%	1952	18.2%	2.3%	11.8%	1971	14.2%	9.8%	12.4%	1990	-3.1%	6.2%	0.6%	2009	26.5%	-11.1%	11.4%
1934	-1.2%	8.0%	2.5%	1953	-1.2%	4.1%	0.9%	1972	18.8%	2.8%	12.4%	1991	30.5%	15.0%	24.3%	2010	15.1%	8.5%	12.4%
1935	46.7%	4.5%	29.8%	1954	52.6%	3.3%	32.9%	1973	-14.3%	3.7%	-7.1%	1992	7.6%	9.4%	8.3%	2011	2.1%	16.0%	7.7%
1936	31.9%	5.0%	21.2%	1955	32.6%	-1.3%	19.0%	1974	-25.9%	2.0%	-14.7%	1993	10.1%	14.2%	11.7%	2012	16.0%	3.0%	10.8%
1937	-35.3%	1.4%	-20.7%	1956	7.4%	-2.3%	3.6%	1975	37.0%	3.6%	23.6%	1994	1.3%	-8.0%	-2.4%	2013	32.4%	-9.1%	15.8%
1938	29.3%	4.2%	19.3%	1957	-10.5%	6.8%	-3.6%	1976	23.8%	16.0%	20.7%	1995	37.6%	23.5%	31.9%	2014	13.7%	10.7%	12.5%
1939	-1.1%	4.4%	1.1%	1958	43.7%	-2.1%	25.4%	1977	-7.0%	1.3%	-3.7%	1996	23.0%	1.4%	14.3%	2015	1.4%	1.3%	1.3%
1940	-10.7%	5.4%	-4.2%	1959	12.1%	-2.6%	6.2%	1978	6.5%	-0.8%	3.6%	1997	33.4%	9.9%	24.0%	2016	12.0%	0.7%	7.5%
1941	-12.8%	-2.0%	-8.5%	1960	0.3%	11.6%	4.9%	1979	18.5%	0.7%	11.4%	1998	28.6%	14.9%	23.1%	2017	21.8%	2.8%	14.2%
1942	19.2%	2.3%	12.4%	1961	26.6%	2.1%	16.8%	1980	31.7%	-3.0%	17.8%	1999	21.0%	-8.3%	9.3%	2018	-4.4%	0.0%	-2.6%
1943	25.1%	2.5%	16.0%	1962	-8.8%	5.7%	-3.0%	1981	-4.7%	8.2%	0.5%	2000	-9.1%	16.7%	1.2%	2019	31.5%	9.6%	22.7%
1944	19.0%	2.6%	12.4%	1963	22.6%	1.7%	14.2%	1982	20.4%	32.8%	25.4%	2001	-11.9%	5.6%	-4.9%	2020	18.4%	11.3%	15.6%
1945	35.8%	3.8%	23.0%	1964	16.4%	3.7%	11.3%	1983	22.3%	3.2%	14.7%	2002	-22.1%	15.1%	-7.2%	2021	28.7%	-4.4%	15.5%
1946	-8.4%	3.1%	-3.8%	1965	12.4%	0.7%	7.7%	1984	6.1%	13.7%	9.2%	2003	28.7%	0.4%	17.4%	2022	-18.1%	-17.8%	-18.0%

CREATIVE PLANNING @CharlieBilello

Source: Twitter @CharlieBilello

SVB: a wake-up call?

LGT Wealth Management asks the question.

It has been difficult to escape the unfolding story surrounding Silicon Valley Bank (SVB). The news first gained traction when SVB sought an equity increase given the losses suffered on financial assets sold. At the same time, they faced a large amount of deposit withdrawals. The snowball effect that followed led to SVB collapsing. While regulators have been proactive in trying to shore up confidence in the banking system, investors remain understandably concerned of the failure of the 16th largest bank in assets in the US.

The rise and subsequent fall of SVB was perhaps a consequence of its previous success. It was once considered "the" go to bank for US venture capital (VC). Fast-forward to the post-pandemic economy, when the IPO market saw a wave of Special Purpose Acquisition Companies (SPACs) hit the market, bringing with it massive liquidity injections for private tech companies. The main beneficiary of these proceeds was SVB, which saw its deposits swell from \$62bn to \$189bn, a more than threefold increase, between 2019 and 2021. However, as the Fed embarked on its hiking cycle, these companies saw their access to additional capital dry up, which resulted in a notable volume of deposits being withdrawn. Last year it saw \$15bn of outflows, which accelerated in the months since the last reporting period.

Instead of parking the enormous inflow of deposits in short maturity assets, SVB decided to invest the majority in mortgage-backed securities (MBS) in order to increase their income when interest rates were low. These securities tend to have a low interest rate sensitivity during periods of declining interest rates. However, in a rising interest rate cycle, the sensitivity increases as homeowners decide to stay put and retain their favourable borrowing costs. This poor risk management meant that the bank faced paper losses in excess of its capital reserves. As the deposit flight accelerated, this resulted in the paper losses becoming crystalised. Fearing the loss of their deposit, VCs urged their portfolio companies to withdraw their deposits, ultimately leading to the demise of SVB.

In the wake of SVB, Signature Bank has been shut down given the swathe of deposit outflows. First Republic Bank in California shares are worth around 25% of their closing value on Wednesday the 8th of March. The fear was that given the outflows, banks will have to sell some Treasury holdings at a loss to repay their depositors. Typically, banks are allowed to hold these assets at cost value assuming they are held until maturity. If everyone is forced to crystalise these losses, then an enormous amount of capital will be lost. However, it seems that actions undertaken by the Fed will likely prevent more bank runs.

The Fed has announced the creation of a new facility, allowing deposit taking institutions to pledge Treasuries, MBS and other assets for collateral to avoid further distressed sales of assets. Furthermore, all depositors will be protected in joint action by the Treasury, Fed and FDIC resulting in no company facing losses on its deposits.

SVB was initially subject to stricter regulation, but these were loosened in 2018 under President Trump. Arguably, if SVB faced the same stress tests as the big US banks were subject to, they would not have adopted their risky strategy or faced calls by the regulator to increase capital to absorb losses. Thankfully, the larger banks are much more conservative. Not only are their deposits from a much wider array of customers, not highly exposed cash consumptive tech firms, but would likely fail stress tests if they undertook SVB's strategy.

Investors expect the Fed to halt its rate hiking cycle, wary that that there is nothing that drives banks to pare back lending like a bank failure. Although the situation is very fluid, the regulators have acted proactively to prevent a swathe of further bank failures. Investors see the benefit of scale for the larger banking groups and are worried about having to put fresh equity into the smaller banks. While this is a distressing situation, the broader plumbing put in place by the Fed in the wake of 2008 should prevent this problem from becoming a much wider concern. Markets are expected to remain jittery until there is further evidence that the situation has been contained, while central banks have received a wake-up call to be cautious with further rate hikes from this point onwards.

For further information contact **Robert Hardy – Robert.Hardy@lgt.com** or tel: **+44 (0)7826 463 670**.