Hello Everyone,

"(Gold) gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. Anyone watching from Mars would be scratching their head." Warren Buffet, 1998 Harvard speech.

A 13F is a quarterly report that institutional investors must file with the Securities Exchange Commission (SEC) disclosing their equity (stock) holdings. It is always fun to see what the "big fish" are buying and selling.

Warren Buffet's latest 13F shows he did the following:

- Sold 62% of his JPMorgan stock.
  - Sold 26% of his Well Fargo stock
  - Sold 100% (!) of his Goldman Sachs stock.
  - And sold millions of shares of PNC Financial, M&T Bank, Bank of NY, Mastercard, & Visa.

Do you notice a financial-y trend here?

Meanwhile, he bought a stake in Barrick Gold. What would the Martians say?

Today's missive will postulate about why the Oracle of Omaha (Buffett) is selling financials.

Signed, Your-I-Wonder-If-Russia's-Covid19-Vaccine-Is-Really-Just-Smirnoff-Vodka, Financial Advisor,
Greg

KKOB 08.17.2020 Covid & Banking

Bob: So, Greg, I know you want to talk about Covid's effect on the banks today, but the Covid-Oil connection you made on Friday kind of stuck with me over the weekend.

It occurred to me that if I had even a small slice of my portfolio in energy over the past 3-5 years, there was basically no way I could do as well as the overall market. You just can't make up for a sector that is down over 40%.

Greg: Right. And, that's actually a pretty good segue to the Covid-Banking connection. Like oil, the problems in finance have been percolating for a while now.

Let’s do some forensics and try to see what is going on.

On September 16th of 2019, (11 months ago) a huge red flag went up in banking-land. The banks stopped loaning to one another. That may seem really boring, but that’s what happened when Lehman Brothers failed in 2008. And we all know how that turned out.

Back then, the banking-elite told us this was just a glitch in the system… and it would all sort out soon. So, here we are in August of ‘20, and it still isn’t resolved. Bob, at last count, our Federal Reserve has printed over $6 trillion to keep the international (!) banking system greased.

Bob: Then Covid hit. That couldn’t have helped things. I mean if banks didn’t trust each other before the pandemic, there was no way trust could increase once everyone shut down----- and the loans weren’t being repaid.

Greg: Exactly. Banks in China, Spain, and Italy were already on life-support before their governments told everyone to stop work and go home. Tourism evaporated. Car sales plummeted. Industry went dark.

Then the same thing happened here. In March we were told we were all going to die. And, in fairness, we didn’t know what we were dealing with, because the Chinese (who had already crushed their own economy) didn’t share their data. Nice.

So, let’s connect some data points.
83% of NY City Restaurants failed to make their rent or loan payments in July. 32% of US households didn’t make their mortgage payment last month. Meanwhile, it’s pretty clear landlords will have legal battles if they try to evict people who don’t pay their rents.

The point is, whether it’s a commercial loan or a personal loan, banks aren’t getting the income stream they expected because people either can’t, or won’t, pay.

Bob: And here's another one. Credit card debt is down because people aren't eating out as much---or going on vacations. Now, that seems good, but banks depend on credit card interest to keep profits up.

Greg: I know. With interest rates so low, credit card rates in the teens were a bright spot for bank profits. And now credit card debt is at 2011 levels. Good for consumers, but bad for banks.

And all this stress is showing in the banking index. A quick glance at the chart will show the banking sector is where it was in 2016. That's almost four years of up-down-up-down… but no progress.

Bob: And I'm no stock analyst, but it is hard for me to find a scenario where suddenly banking starts showing massive profits. People are pretty shell-shocked by what's happened. I mean, even if we got a vaccine tomorrow, who is going to want to take out a big loan?

Plus, like you said, something must have happened last year to make the plumbing in the banking sector jam up. And we still don't know what that was, right?

Greg: Right. So, it's like our oil story. Oil has structural issues that were there before Covid. Same with banking. All Covid did was serve as an accelerant to what was already metastasizing under the surface. It wouldn't shock me to see some "unexpected" banking crisis (probably out of Europe or China) before year-end. But that's just speculation.

Bob: But what we learned in 2008 was that all the banks are interconnected. So, with banking, it's never a "just-over-there" problem.

Greg: Exactly. Anyway, on Friday, let's look at Covid and real estate, because real estate ties to banking as well.

Bob: I think I know the story there. Until then, how do people reach you?

Greg: Just go to zanettifinancial.com.

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