TFTC 403

**Marty:** [00:00:00] Parker, is it happening? Define it. Are we, are we watching a systemic collapse of the central banking system here in the United

**Parker:** States? I think we're seeing the onset of the next financial crisis, and there will always be a next financial crisis until the, the system collapses entirely. I think it's hard to predict or, you know, is this the last cycle?

Um, it's probably not, but um, I think that this is, you know, if there was 2008 and there was 2020, this is, um, a financial crisis that is consistent with the scope, magnitude, consequences of that. Yeah. Is it the

**Marty:** onset of the crisis or are we like in the middle of it? Because obviously,

**Parker:** I mean, the, how, how you define lead up, right?

Like going back to 20 19, 20. or even [00:01:00] 2008, the first in 2008, people often look back to Bear Stearns, but it was really the summer of 2007 when the writing was on the wall, when the first cracks happened. So I think the, the cracks and the facade had already happened and then it's when things get to crazy town and just start falling apart, when I say that we're in the crisis, it's, you know, when it becomes obvious to a wide range of people.

Yeah,

**Marty:** no, this is why it's great to be here in the Bitcoin commons and have access to you in person because I think considering what's going on today, what has been going on over the last week, obviously the tremors started with Silver Gate. You had to run on that bank last week spread to Silicon Valley Bank.

Then we wake up this morning, every regional bank stock, uh, has trade, has halted trading. Uh, we had signature. get shut down yesterday. It seems like [00:02:00] something is happening on the back end of the banking system. A lot of the pundits are like, oh, this was a, a crisis onset by crypto and the risk taken there.

But I think building on the conversations that started many years ago on my rooftop in Brooklyn, talking about Ender's game, uh, building up to today, I think sitting down with you and getting into the first principles of actually everything that's going on from a liquidity profile behind the scenes is very important.

So you've been looking at charts over the weekend and diving into some stuff that will pull up on the screen, but at the end of the day, this is a crisis that seems driven by the Fed and their interest rate policy over the last year.

**Parker:** Yeah, I think that that's, um, something that we should talk about where, um, to an extent this does feel.

or like part of this feels like choke 0.2 0.0. But, [00:03:00] um, I think that that the, the bigger thing that's happening in that ultimately people will say that, you know, the crypto selloff had, you know, caused Silver Gate and then, um, and then there were knock on effects, but in reality, um, and I think, um, who, somebody put out a tweet about the unrealized losses for all the banks, and it's important to recognize that this whole mess is 100% a function of the Federal Reserve.

Like they set it up, you know, and knocked it down themselves. Um, I think that the statistic is there's 700 billion of unrealized losses on bonds that the banks hold. Right? And, uh, we can talk a little bit about that, but. The Fed functionally printed a lot of money, started to, uh, to [00:04:00] created a dynamic where there was out of control inflation.

And then in an attempt to try to reign that in, they started aggressively raising interest rates, which caused the value of bonds which the banks held to collapse. Or, I mean, collapse is, is a strong term in terms of bonds, but if bonds drop by 10 to 20%, um, that's a significant, uh, reduction in the val mark market value of bonds.

And that is really what caused Silver Gate issues. Right. It wasn't the outflow of demand. And I think, you know, we, we'll go into a lot of other things, but take the opportunity just to, to give Silver Gate credit that they withstood a 70 to 80% drawdown in deposits. Um, they did not need to be taken over by the F D I C.

They weren't taken over by the F D I C. . Um, the, the thing that created issues for them was that in the, in the midst of them needing to, um, to satisfy [00:05:00] deposit withdrawals in that intervening period, the fed increased interest rates seven or eight times to four and a half to 5%. And didn't matter what you were holding, what credit instrument, the, the, the value, um, decline that happens when you raise interest rates caused those, caused those losses to be realized.

Um, and, and then that created, um, the big issues, which then, uh, Silicon Valley Bank signature, realistically, any bank that was holding treasuries or mortgage backed securities or any credit instrument, right. Um, they, the fed created a hole. . Um, and, and they didn't just create the whole by raising interest rates, they created the whole by w withdrawing or basically draining 25% of all the cash that existed in the banking system in a [00:06:00] 12 month period after inducing a massive credit expansion.

So it's not just the market to market issue, it's that they were creating a mark to market issue by raising interest rates, but at the same time, they were taking actual dollars out of the system, um, and the weakest were going to be exposed. Right? And Silver Gate wasn't the weakest. Silicon Valley Bank might have been the weakest, right?

They, you know, silver Gate sustained an 80% drawdown in reserves, didn't need F D I C, um, or the F D I C didn't shut them down. And at the end of the day, that happened over a four month period. Silicon Valley Bank boom. A day. 24 hours gone. Yeah. Um,

**Marty:** no. And I saw Alex Leishman tweeting over the weekend that even though Silver Gate has since shuttered their doors, they're still processing withdrawals even to

**Parker:** this day.

Yeah. And I, and I went in that to, to say like, this is 100% about the Fed. The fed [00:07:00] printed a shit ton of money in between September of 2019 and May of 2020, and then in a more controlled way through 2021 functionally, or at least through the fall. And that's when inflation really started to rip. Right. And then, um, started to get a lot of pressure and also in their kind of core function of quote, price stability.

Tried to reign that in by jacking up interest rates and literally on, on both sides on. The consequences of flooding the, the system with a bunch of reserves as well as then how they tried to exit that this had nothing to do with Bitcoin crypto, um, like didn't even have anything to do with ftx. Um, it hap had to do with the Fed and they might like to say, Hey, look over there.

But like if you look at what's actually [00:08:00] happening systemically, fundamentally, um, it's all of their, you know, of by, for the Fed, um, having nothing to do with Bitcoin.

**Marty:** Yeah. And this problem becomes like very obvious too when you consider the fact that post 2008 dot Frank comes to light and it changes like the reserve requirements or the capital requirements, and they dedicated like a tranche of banks reserve capital to these quote unquote risk-free bonds.

So as you're jacking up rates, the price of those bonds is going down. And as a bank, you're required. By law to hold a basket of those, of those treasuries in capital reserves. And the problem seems pretty obvious when, when we think about it now, in retrospect, even though it's hard to even call it retrospect as it's happening right now, but thinking about it like, oh, they put these capital requirements in for these assets that are very [00:09:00] tightly correlated to fed policy.

Like you raise rates, the bond prices are gonna fall, and so that the capital in that, that that requirement is going down. And so then maybe you gotta pull from, from more liquid deposits, buy more bonds, which then creates a liquidity crisis if people want to withdraw. And then it's an exacerbating doom loop.

**Parker:** Yeah. I mean, could we pull up the, it might be, if we could pull up the, uh, Silicon Valley bank balance sheet just to like talk about like some of these dynamics looking actually at, um, a bank balance sheet.

Okay. Um, we

**Marty:** zoom in a little bit. Logan?

**Parker:** Yeah. Can I dunno how this will zoom. Okay. My eyesight's good enough for there? Yeah. Perfect. Okay. So, and this is Silicon Valley Bank.

It looks like it, but Silicon Valley [00:10:00] Bank. Yeah, it must be. Yeah. Yeah, it's, um, okay, so they have, so as of December they had 13.8 billion of cash and then they had 26 billion available for sale securities at Fair Valley. So 26 billion then held to maturity securities, 91 billion. Um, and then cuz it, and I, I'm not gonna, like they have probably some of these loans are, are, um, in a different category, bro.

Like if you see the 74 billion in loans right. That those. At amortized costs that is functionally like the core of a bank's business. Like that's, that's them issuing loans to, to their customers. The 26 billion and the 91 billion that are up in total investment securities. Um, that, that is them buying bonds.

That's not them originating loans and holding those loans. That was the fed [00:11:00] increased their balance sheet to stem a 2020 financial crisis. And then they can't go out and issue loans. They can't create demand for loans. So a bunch of deposits flood into their system. And what do they do? Rather than hold those depo just deposits as reserves, they went into the market and bought treasury, which is very different than originating loans.

Now those, those 74 billion of loans, those, those are. Highly illiquid and, um, the, you know, kind of just like drawing the distinction between what those two things are. Now, if you go down Logan and you see like they had 173 billion of, of deposits, so, um, and I don't know what break, see we've got demand deposits of 80 billion in interest bearing deposits of 92.

I don't know if you know to what extent those interest bearing deposits have [00:12:00] time. You know, kind of like we're a, a demand deposit, you can show up tomorrow and get your money back. A, a time deposit is generally like you can show up in 30 days or 60 days. Um, but realistically what happened was, and I think my order of magnitude might be slightly off, but if you scroll back up, Logan, that they, they started having.

basically, I think in, in Silicon Valley, CA Bank's case, because a lot of their customers were venture backed CU customers. They were cash burning. So their, so their deposits started to decline on net, um, at the bank level. And they needed to sell some of the available for sales securities and the health of maturity securities.

Well, when they did that, because the, the value of those had gone down, and this is the exact same thing that happened at Silver Gate. They had to realize losses of like when they bought them versus when they needed to sell them, and they incurred a 2 billion [00:13:00] loss. Well, if youre, if you're sitting on over a hundred billion of, um, even if they're short term, but I think in the cases of Silicon Valley, they were longer duration, like mortgage backed securities, mortgage backed securities, or just longer dated treasuries.

What do you, what does the Fed expect to happen if they flood the system with a bunch of reserves? and then those naturally flow into, okay, the bank's gonna buy credit instruments, and then you jack up interest rates. And now what, what, what the Fed functionally did was they created the whole, in these bank balance sheets, they should have told 'em like, Hey, don't, you know, get rid of your treasure, get, get rid of all your credit instruments before.

But that's what the bank is in the business of holding credit instruments. Like there might be a distinction between the loans that they originate, that 74 billion and the, you know, 120 billion ish that they're holding, you know, because they didn't have anything else to do with the cash. [00:14:00] Uh, but that, that is ultimately what created the environment that, that made them so susceptible to a bank run.

But it's not specific to Silicon Valley Bank. It, it, it's systemic it at every bank.

**Marty:** Yeah. I mean, there was stats going out over the weekend of like the four major banks they're sitting on. these losses as well. Well, not realized yet,

**Parker:** but if they were Yeah. And, and I, and, but the other point I bring up is that that 700 billion, I don't know how the tweet, I think it was Caitlin Long that put it out that had, like, that showed the, the unrealized losses on the bond portfolios of 700 billion.

But, um, the point being that Bitcoin in total was 400 billion, right? Yeah. So like, um, that, that unrealized mark to market loss is a direct consequence of the Fed having in raised interest rates seven or eight times. And, um, you know, the, the Fed funds rate going from zero to four and a half percent or whatever, whatever it is today.

Yeah.

**Marty:** And bitcoin's probably like 450 billion [00:15:00] market cap today with the price screaming up towards 24,000. But like in the context of the banking crisis, that was all businesses built around Bitcoin and crypto and that market cap is even significantly lower. , yeah. Than the whole Bitcoin market cap.

**Parker:** So Logan, can you pull up the, the cash assets, um, for the banks?

Yeah. Because, and then can you, um, can you move the, um, the time scale from like to basically that period where it looks very low is, um, is like basically pre qe. Um, yeah. So one of the things here is that if you, if you go to 2000 or like leave it, leave the chart as it is, but if you're kind of looking at the 2017 time period, the amount of, and what we're looking at here is the cash as like the total cash that the, that the banks hold.

So the left side of the bank's balance sheet, if we were just looking at [00:16:00] Silicon Valley Bank's balance sheet, it was the 13 billion. Um, that in 2017 when the feds started to signal that they were going to. Um, start to undo qe. The, the total cash the banks held in total was about 2.4 trillion, and they, they withdrew about 700 to 800 billion of cash, basically just going into a black hole.

Um, and that caused the repo markets to break. They're basically taking the building blocks of liquidity out of the system. It's just going into a black hole. Um, and in, so from 2017 to 20 19 2 year period, they drained 700, 800 billion of, of reserves, which equated to 33% of all the cash that was in the banking system.

And the important thing, and I wrote about this in Bitcoin is not a hedge as well as Ender's game, which we talked about several years ago, is that when that happens, the amount of debt liabilities that exist in the [00:17:00] system do not magically change. , they're basically just taking out the liquidity that could be there to fund it.

So it's like thinking about like in, in ery medical terms, like the numerator stays the same, but the denominator gets shrunk massively. And what they functionally do each time they drain reserves is dollar for dollar introduce incremental leverage into the system. The liabilities don't change the amount of cash to service them does and the ratio goes out.

Gets blown out. Yeah. Gets blown out. So when we look at what has happened over the last 12 months, or really since June, you know, they, they took out, um, over a trillion dollars. Right? And there's still more cash, but the credit system is also expanded. Expanded significantly. And so they took out more dollars.

in a shorter period of time, they took out a trillion dollars, which is about [00:18:00] 25%. Um, so you said, well, they, they weren't as aggressive, but it's like, no, they took out a trillion dollars over a six to eight month time period, whereas they took out a, um, 700, 800 billion over a two year time period. And that resulted in the financial crisis.

So everything that ha can, like, like people can kind of get lost in like with the consequences of the bailout and the moral hazard, but it all comes down to what the Fed is doing. And it's like, it is, it is all a function of the Fed and it all comes down to the amount of liabilities that exist in the system, specifically debt liabilities, as well as the dollars that exist in the system that could service it.

And if you take out 25% of all the cash in the banking system after having induced massive credit expansion, this is what happens. And it's also why it's systemic to all of them, right? Like we, it's difficult to know until. , the dominoes start to fall as to who the weakest is. But when they drain the [00:19:00] reserves from the system, it is actually what induces the bank run because it exposes the weakest, um, the, the dollars come out from one place, but then it's like a, it's like a suction.

Um, whoever is weakest is going to be exposed first. Yeah. And

**Marty:** like you said, taking these dollars out of the market adds leverage to that credit exposure or that credit exposure as the monetary base was expanding, as cash was being injected into the system, was already essentially being leveraged as well.

When you think about yeah, the context of Silicon Valley Bank, like they were issuing loans to startups or bcs, bcs looking for bridge loans that are next, capital call or startups trying to monetize before they go public or get acquired as well, which is both levered bets. Yeah.

**Parker:** But yeah, so I think that's all right.

But. what's actually happening? Is it, it's not specific to [00:20:00] Silicon Valley Bank. No. Right. Uh, any,

**Marty:** I mean, well, that, like, it could bring it back to the context of the weakest get exposed first like venture. Yeah. Venture companies are high risk endeavors. Right. So it makes sense that it may

**Parker:** start there, right?

Yeah. But it could also be that if you, if you have a bank that has a high concentration in commercial real estate in a market that is, you know, a low growth market and the Fed starts to increase interest rates significantly, like that's probably just as prime a place to look as any Right. Um, that there's probably a lot of what might appear to be idiosyncratic reasons why someone is weakest.

But it's all correlated because the Fed is slowing everything. Like it's not a coincidence that that ventures slowing down at the same time that the fed's draining capital outta the system and, you know, it's all related to each other. Yeah. .

**Marty:** So where do we stand now? I mean, is this what forces the hand the Feds [00:21:00] revert?

**Parker:** Well, I think that one thing I would say is, so I guess last night came out that the Fed basically fed in collaboration with the F D I C in collaboration with treasury. Cause I think it required all three of them to, um, and someone can correct me on this, but I think that it required all three of those constituents, including their boards, to basically determine that Silicon Valley Bank was systemic or what, what's currently happening as systemic, such that they can go, uh, such that the F D I C could go beyond, um, their $250,000.

Yeah. To ensure all, so, so basically they came out around 5:00 PM before the market, the future's open, and said that, that, that they were taking care of all of the, um, insured and uninsured deposits of Silicon Valley Bank and. That they, that they, that they had the, um, signature, signature bank had been shut down, um, and entered receivership.[00:22:00]

And that they had this new facility, which they called something like the bank term loan facility. Uh, and this is a, this is the other, this is a crazy thing. Cause each time, each, with each passing financial crisis, they have to do something crazier. And

**Marty:** what they did yesterday was insanely

**Parker:** crazy. Yeah. Um, and then there were a few things that were Casey.

One, the fact that they stepped into, to backstop all, um, insured and uninsured deposits. Because the thing was Silicon Valley Bank was that like 93% or 94% reportedly of their deposits were uninsured. Um, that was crazy too. But then kind of, if we go back to the financial crisis of 2008, , they started QE with just treasuries, and then they expanded that to mortgage backed securities.

And there were people at, in, at the time in the fed, including Richard Fisher, who was the Dallas Fed president, who basically was like, we are operating like a hedge fund. We shouldn't be choosing, uh, [00:23:00] sectors of the economy of managing one or the other. And there were other people in the Fed that said like, don't, don't call us a hedge fund.

Like, you know, that's not what we're doing. Um, but, but that kind of movement away from just buying treasuries into treasuries and mbs and that, that then kind of normalized, um, the Fed using MBS or mortgage-backed securities as a way to pump more dollars into the system. Well then in 2020, whenever, you know, like the market broke again for predictable reasons, um, because they were draining the dollars as liquidity, that the, that the highly leveraged system needed.

it wasn't just treasuries and, and mortgage backed securities. It was, um, they basically started creating, uh, funds to buy corporate credit. Um, not just corporate credit, but muni bonds. Like basically the, the leaky ship was bursting at every, at, at every seam, and they had to, they had to buy every form of credit out [00:24:00] there.

Well, when you go

**Marty:** back to 2019, I'm not sure if this was a credit facility, but during the repo spasm, they added a new facility that essentially allowed them to fund hedge fund margin trading accounts.

**Parker:** That I know. I, I, I remember seeing like reports about that, but I never dug into that myself to, to verify whether or not, I thought maybe like some hedge funds were participating in like the, the, um, they got access to the window.

Oh, they got a, okay,

**Marty:** that's, that was the facility that they added in 2019 via proxy, like D F M I C or something like that.

**Parker:** Yeah. But basically just like kind of highlighting that they had to, they had to go plug the, the leaky ship at more points, um, because the credit system was collapsing. That's, that's functionally what's happening.

The credit system is collapsing when, when we're seeing this. Um, and this time, the thing that they have added, the wrinkle is, oh, okay. So the problem was that we started, [00:25:00] we, we flooded the system with a bunch of dollars and the banks, certain of them, probably most of them, went and bought these mid to, to longer duration securities.

They start increasing interest rates. The market value of those loans comes down and as inflation's going up, and then what they've done now is they said, okay, so say you've got, uh, a treasury. And I think it's, it's not just specific to treasury, but I think it's everything that counts as like hq, l a or like a highly liquid quality assets.

Um, not a hundred percent sure, but basically, let's just use treasuries as an example. If you have a treasury that's trading at 90 cents on the dollar and say you have a hundred million of that and say that that's worth 90 million. If you were to sell it, they'd say, you don't have to sell it. Come to the Fed, pledge it and we'll give you a loan of a hundred million.

That is [00:26:00] functionally qe, right? If they were doing qe, they would say, oh, you have a treasury worth 90 million. I'll buy it for 90 million. You give me your treasury and I'll give you cash. Cash. Um, I'll credit your account with another 90 million. They're ba that's what they're doing. They're just not saying it right?

Cuz they're saying, Hey, no, we'll actually do you one better. We'll give you a hundred million. The par value of it. and we'll take those as collateral. It's basically a repo, but a repo not at market value at at par. And the reason why they did that was because as these bank runs were happening or are happening presently, um, and I don't, I don't expect that, um, why they would stop really.

And we can talk about why that is. But as Silver Gate had to sell and realize losses, like anytime you have to go into the market and sell a loan, the market is setting the price of it. So then boom, if if they, if, and [00:27:00] I'm not saying this in the sense that like they should have done something differently.

I, I do think, I mean like I do something differently, but the whole system is fucked. So it's like damned if you do, damned if you don't like, yeah, they're stuck in the worst catch 22 of all time. But, but if they had allowed Silicon Valley Bank to, uh, not necessarily even not, I'm not talking about bailing out the depositors, but if they had allowed it to remain open, and not shut it down on Friday.

Then as those, um, depositors had said, send my money to Chase or send my money to Wells, or send my money to Citi, then that 120 billion or however much was left, I know that they had sold a a 20 billion portfolio for a 1.8 billion loss. The only way that they could have continued to satisfy that was to sell credit instruments.

Cascading losses. Yeah, cascading losses for, for the next bank for them. But because, because if they have to sell MBS or they have to sell treasuries, then the next [00:28:00] weakest bank, whether it's First Republic or whoever else is weak, um, which they're all weak cuz the whole banking system is insolvent and not to pick out a few.

But the point is that in order to satisfy those withdrawals, they're having to move the market lower and so then it creates an actual larger hole for the next bank. that gets in the same situation. Um, and again, that doesn't, the, the, the, the issue of in, of guaranteeing uninsured deposits, except from that, that, that, that's really what, what, you know, my view why they had to like stop the, the SVB piece, um, because there's a knock on effect.

But that then informed how, um, I think why they basically said, Hey, don't, you don't need to sell these credit instruments, post them here and we'll give you the full value. What they're gonna have to do is they're gonna have to reintroduce the formal QE to, to walk the value of those bonds back up.

They're gonna have to be the buyer that gets the values of the bonds back up. So such [00:29:00] that that is actually the most quote, capital efficient way to stem this massive collapse of the bank run. Like they'll convert this poster, you know, Post your unrealized losses here at the Fed and we'll give you the mark to market value at par, um, or, or not at mark to market, but at par.

And then over time, we're gonna have to go back on the market and be the buyer of these bonds. And then as we get the value of the bonds back above par, you can then, you know, reverse out of this. Take your, take your bonds back, we'll give us cash. You know, that, that, that's how I see it playing out

**Marty:** doesn't seem good.

And when you think about like the compression of these crises, obviously we had oh eight start unwinding in 2017. Fast forward, end of 2019, beginning of 2020. Credit problems arise at the reverse course. Print money for two and a half years, or [00:30:00] Yeah, two and a half years. Like beginning of 2021.

**Parker:** Uh, yeah, like 2019 to the end of 2021.

**Marty:** Yeah. And that's a two, three year period. And, , obviously we have this aggressive rate hike regime. The last, what's called year not even yet. And now here we are, beginning of 2023. Q1, 2023, having to reverse course again.

**Parker:** Yeah. March 12th is a day that it's like March 12th. March 12th, 2008 was when Lehman failed.

I think. I mean March 12th, 2008 was when, um, when David Faber famously went on CNBC and asked somebody at Goldman why they weren't, or maybe no. Yes, someone at Bear Stearns. Why they weren't, um, why Goldman was failing to Novate trades. Um, and that was basically the collapse of within a few days and March 12th, 2020 and then March 12th.

Yes. You know, 2023. Yeah,

**Marty:** yeah, yeah. So it seems like things are [00:31:00] accelerating, like the, the pace at which they're losing control. Yeah,

**Parker:** I think, I mean, I think that's apparent, um, that. More people, you know, the system is more levered. They have less control. They, you know, each time, in my view, if you, if you think about what's actually, um, the mechanisms by which they tried to quote fix the system, it, it always, the, the function of introducing new dollars.

It's like the, the, the problem at its core is one of leverage, both in terms of the total amount of debt in the system, as well as the relationship between debt and the available supply of dollars that can, that can fund the debt. And um, if anybody's interested in learning more about that, that can go read.

Bitcoin is not a hedge that I put out earlier this year, but that is the core of it. And at each time the thing breaks, they have to put more [00:32:00] dollars that they, that they had put in before, but also. , the system needs to be growing the credit system in order for it to not collapse, needs to be growing. And as the credit system becomes larger, that's actually it.

It necessitates more nominal credit be created for it to grow, um, because a certain amount of liabilities are rolling off each year. Right. So, um, so what what functionally happens is they have to print more money each time. As the system becomes more and more fragile, that induces more and more credit creation, which then as they try to, you know, reverse out the consequences of it, as it, as it, you know, kind of manifests itself in inflation and volatility, then each next time it's like, it's, I the timing's impossible to predict.

But, but I think what is foundational or fundamental about it is that the problem only gets worse.

**Marty:** Yeah. The outcome's very predictable. It's just when it will [00:33:00] happen, nobody knows. Yeah. But a again, another. important point

**Parker:** to really dig into here. Well, well, and also, but on that point that you're making about the timing accelerating, it's like if you look at what they did was post-financial crisis.

They waited in two till 2017, so they introduced cash from 2008 to 2014. Then they started raising interest rates in 2015, but they didn't change the balance sheet until 2017. So from the last dollar that they put into the system to when they started to withdraw, it was three years approximately, and then they withdrew 700 to 800 billion over a a 24 month period.

Well, they put 5 trillion in the system over a two year period versus 3.6 trillion over a five year. From 2000, the 3.6 trillion was 2000 into 2008 to 2014. So like they're accelerating the, they're, [00:34:00] they put more money in the system. 5 trillion from September of 2019 to September of 2021. And then that had set off this, I mean, realistically it was the cumulative buildup of all the money that they've printed over decades.

But it gets exacerbated and they start to signal in the fall of 2021 that they're going to raise interest rates, which they start in March, but they didn't start withdrawing the liquidity from the system until the summer of last year at 2022. Well, they took out a trillion dollars in less than a year.

Right? So they put money in faster. They took money out faster. What does that do? Accelerates the timeline of the, of, of whatever financial crisis. Crisis was going to

**Marty:** happen. . And I don't, and the point I was gonna make too is like, another important thing to lean into, which you touched on, but we didn't articulate it this way, is that every time they add more cash, they have to get unique in the ways that they add cash.

In 2008, we'll buy your mortgage back [00:35:00] securities 2020. We'll buy your corporate bonds, your muni bonds, who knows what's gonna happen now, but not only are you introducing more cash into the system, but you're expanding the landscape for more potential moral hazard. Right? Because the, the announcement they made last night with the F D I C, the treasury and the Fed saying essentially said, we're gonna backstop all your deposits.

Like there, there's no scenario which deposit is not gonna be able to get their cash. And that introduces moral hazard to the banking sector. We're like, oh, they're gonna, they're gonna backstop all of our deposits. Like we can go take any bet we want.

**Parker:** Well, I think that, um, yeah, I think and maybe we talk about, uh, Kind of moral hazard, like the whole system, the system is built on moral hazard.

So it's difficult to say that the incremental moral hazard that they have introduced materially changes the, um, the broken [00:36:00] incentives that that already existed. They, uh, they certainly do, but to like fooc, that's like focusing on the, the edge rather than the core. Um, I think one of the things that, um, you know, bill Ackman, uh, Jason Cal Canis, David Sack had been out there hammering for a, a Silicon Valley bank bailout.

Um, now the shareholders weren't bailed out, but the depositors were, and there's the depositors have more value than the, than the shareholders did. And the same for signature, whoever it might be. And they said like, now's not the time. I think I saw something from, uh, Larry Summers too. That guy's a clown.

Um, but, uh, but saying like, now's not the time to be lecturing us about moral hazard. It's like realistically, now is always the time. But they're also right in the sense that like the system from its from its most rotten core, um, got to where it is because of moral hazard. The moral, the ultimate moral hazard is the Fed has the ability to print money and so we [00:37:00] can kind of focus or get distracted on, you know, kind of the, the occurrence of the day.

But the moral hazard was when the financial crisis happened, they, they always had the ability to print money and they did it in a wide scale way larger, faster than they ever had before. But it was functionally the same. And, and what they did though, from a, um, from a legal perspective, they, they, I think they codified too big to fail.

Like they, they said these banks are systemically important banks. They're too big to fail, like, and, and, and when these guys are out there, it's like they're both wrong from like they were, they were wrong in the sense that they were on, like these guys, they're only looking out for themselves. They don't give a shit about America, about Main Street, about jobs.

They were worried about their money interests. Right. Let's just be absolutely clear about that. Um, but [00:38:00] they also weren't necessarily wrong in the sense of like, this is a, this is a real problem. But, and, and I think one of them said like, if, if they were, or maybe they were all saying this, and this was, this was the, the broken, um, thing about it was if you do not bail out Silicon Valley Bank depositors then, then there's going to be a bank run everywhere.

Well, even today there was a Silicon Valley bailout and the logical thing to do is to like still is to move your reserves to a too big to fail bank like. Because what they didn't do was guarantee all deposits for all institutions. So if you're sitting there at institution, you know, three through a thousand, they have not guaranteed anything.

And, and if you're in a scenario where your, your bank has been taken over by the F D I C and you're waiting to learn whether or not what they're gonna do with that next one, [00:39:00] you still have the incentive to move your deposits to JP Morgan, to Wells Fargo, to Citi. Like they codified that in 2000 in the, in the period after the financial crisis, they, they basically said, Hey, we've got this moral hazard of, um, too big to fail banks, which everyone knows that we're gonna bail out.

Um, oh, wouldn't this be a great idea? Let's, let's make this law. that these banks are too big to fail. What do you think is gonna happen? You know, like, um, and so when they bail out, you know, the 93% of deposits that were there, it's like, I don't really care the whole, the system's broken. You know, like it just hopefully wakes some additional people up to the fact that it's broken and that we accelerate over to Bitcoin.

But the moral hazard, basically the moral hazard was always there. It was the Fed can print money, they can, they can choose who and when they bail people out, um, humans are fallible. They always will. [00:40:00] Um, in terms of like, you know, not, uh, they will always bail people out. They will not always use that power, um, radically, um, or in an unbiased way.

Um, and you know, like there's a reason why Signature bank's outta business today and First Republic Slope. No, maybe First Republic isn't open by the end of the day. Doesn't seem

**Marty:** like over 24 now. Bitcoin's ripping. Holy shit. Yeah.

**Parker:** Like, but that, but that's the other thing that comes back to it, which is, um, people, you cannot figure Bitcoin out if you have no knowledge of it.

But there are people that have been aware of it, that were on the periphery, that weren't yet there, and then they see this and they realize, holy shit, I can't trust anybody. Or they realize, holy shit, this whole thing is based on trust. Right? So imagine four days ago you didn't know what Bitcoin [00:41:00] was. You knew it was out there, but you hadn't, like, you hadn't started to think about it.

Well, when all the banks fail, you can't just magically understand Bitcoin. But there's a large swath of people that next wave of adopters that were looking at it and saying like, this doesn't make sense, but maybe, you know, like, you know, I'm not gonna totally dismiss it. And they've got $10 million in their bank account.

and then this shit happens and they're like, holy shit. Like, yeah. That's how they've dealt with, um, Silicon Valley Bank and Signature. And if you think about the psychology, it's like that's connecting the dots for a range of people, you know, over the last three days. And they're not all of a suddenly gonna move all their money over, but they're gonna be like, yeah, let me, let me get some of these chips off the table.

Because that, those things that the Bitcoiners have been telling me about that I didn't think that the banking system would have an all out collapse or that, um, uh, 170 billion deposit bank like Silicon Valley Bank can [00:42:00] be, you know, seemingly perfectly fine one day and literally gone the next. Yeah. Um, that maybe, maybe I need to own Bitcoin because it does solve this problem of eliminating trust from the system.

**Marty:** Well, that's been the most interesting thing over the last few days is obviously we talk about number go up 21 million. Like you want the scarce asset, we want a sound monetary system. But I think the real value prop of Bitcoin that's being highlighted over the last week is the lack of counterparty risk.

If you're appropriately holding your private keys, like I think Silicon Valley Bank going under and for a three day period, people being like, am I gonna be able to access by money? Really drove home the concept of holding Bitcoin in a wallet that you control and whether the price goes up or down, no matter what, you're gonna have access to that money.

Yeah.

**Parker:** And probably most realistically in this scenario, [00:43:00] the Fed is gonna print a sh I mean, one, well that's, that was, there's a certain,

**Marty:** like what is

**Parker:** the magnitude of the next Right. But there's a certainty they're gonna have to print a shit ton of money. Like I would say that they're gonna have to print more money than they have before in the last episode to contain this.

Um, the, you know, bigger boat needs more. dollars to, to plug the leaky ship. Um, and the, the boat is leaking in more places, and that's becoming apparent to people. Um, so that, that's assert like the, they will have to print more money. I mean, they've admitted so much. Like in my mind, QE five has started as of last night.

Um, the, the swap facility is functioning the same. So, so that's there. Um, but there will, like, there's some recency bias to this too, which is like Normies will get all worried and then the Fed will make sure that they can get their dollars and a [00:44:00] certain swath of them will just go back to their daily lives and say, ah, that was a scare.

Yeah, there's gonna be more turbulence in the market, but the Fed, the Fed took care of it. Right. Um, so it's not gonna be like a, I don't, I don't expect that. Like magically everyone who. , you know, is cognizant of what's happening right now, is going to connect the dots. But I do think that at a fundamental level, that idea of, and Satoshi Nakamoto, whoever he might be, um, you know, in terms of like, you know, the presence of, you know, one of his quotes was, uh, I think it was from February, 2009, right after, you know, a month after Bitcoin was launched, where he said the problem with, um, traditional currencies, I think is the term he used.

The problem with traditional currencies is all the trust that's required. You know, we have to trust central banks not to print money. Uh, we have to trust that banks do not, you know, lend the money out and waves of credit bubbles and that trust has basically been broken. We will, this, you know, [00:45:00] 2008 broke that trust, but the system sustained itself or persisted.

It just became more fragile. 2020, the same thing. Now the same thing. Each time those people will say, Or not those people, but more and more people on the margin will look at it and say, yeah, I, I value this thing Bitcoin not just, you know, for different reasons, but more people will value it. And they will come back to this episode around, um, around counterparty risk, around the fact that their entire monetary system is based on trust and that trust is broken.

And the more people that that signal reaches when you're talking about a, uh, you know, that signal has reached 170 billion worth of depositors, right? At least that's Silicon Valley Bank. Um, I mean, if you added up with First Republic, cause the First Republic depositors are sitting there in the same scenario, that's another 170 billion.

A hundred percent of those [00:46:00] people do not connect the idea to Bitcoin. But the signal has been sent to all of those people. Holy shit, this is fragile and. , my money is based on trust. And that will be a key building block for a lot of people to then say like, Hey, this thing Bitcoin 21 million and I don't have to trust anybody.

I might not understand exactly that, but that, that makes sense. If it, if it holds,

**Marty:** yeah, completely. I mean, I had a number of conversations over the week and a people hitting me up like, oh, I finally get it. And then like in the Bitcoin space too. But due to the fact that it has been hard historically to get a bank account, I know many people in the space who are running companies who had a large dollar amount sitting at these banks, seriously considering, Hey, I can't wire it to another bank.

I don't have a JP Morgan account, I don't have a Wells Fargo account, don't have a Bank of America account. Like the smartest decision I can make right now to preserve my treasury or the cash or [00:47:00] my balance sheet is to wire money to a Bitcoin exchange, convert it to Bitcoin and hold it and just wait till this blows over.

**Parker:** Yeah. I mean, I think that if, if you are down the Bitcoin rabbit hole, that is a very logical thing to do. It's the only thing that you can do to eliminate trust. And what do you get with that? At the same time, you get to hold something that is finitely scarce, right? Um, that only becomes logical for people that are far enough down the rabbit hole to connect those dots.

Now, it might move people down there further to take a chance to be like, shit, I can't wake up and have this all be gone, or a fraction of it be gone or not be able to access it. And that's when you also start to realize that when we talk about this word trust, that it's really about access, right? That there's, when we talk about permiss access to Bitcoin network, that people still realistically need access to the, um, to the US banking system.

But the, that access point isn't inherently fragile [00:48:00] because it is centralized and you can get zapped and out. overnight.

**Marty:** Yeah, it just happened like we just said to many people over the last three days. Yeah. So I mean, going back to that point of the state of the Bitcoin industry, their access to banking, like we mentioned

**Parker:** earlier.

I mean, do you think that this, I have an opinion on, but I want to hear yours. Is this choke 0.2 0.0 or is Bitcoin and crypto being caught up in broader systemic issues? I, I think it will

**Marty:** be used as a patsy, as a scapegoat. I don't think it's, obviously, I don't think it's driving any of this. I agree that it's purely fed driven, but I do think, I don't know, it's like the bit of the conspiracy theorist cuz it was all, there was a lot of perfect, uh, sequence of events that have happened, um, starting this time last year where you just have the [00:49:00] blow up Atter Luna, the blow up of three ac, the blow up a block, five Voyager Celsius.

inevitably ftx, you get a cooling off period, and then boom, first bank to go down to Silver Gate. Second Bank is somewhat tangentially related, silver Silicon Valley. And it seems like if the government wanted to point and, and the, and in the last three months you've had Elizabeth Warren saying this is creating a systemic risk.

Like these companies should not have bank accounts. I think they're rearing the narrative engine to, to pinpoint the, the cause of the crisis on Bitcoin and crypto. But um, no, I don't think it's a cause and I do worry that it could be successful in painting that narrative. And it could be hard for businesses to get bank accounts to begin onboarding people to Bitcoin, but who knows?

**Parker:** Yeah. I mean, I think that, um, there's clearly constituent, what, what's the saying that, uh, never let a [00:50:00] crisis go to waste. Yes. Right. That. . I think that this is something similar where the Fed has caused a crisis. I don't think that they had, um, Bitcoin in mind, but then others will seize on it to try to make people in the world of bitcoin's lives harder.

Right. Um, I don't think that it's a coincidence that, um, signature out and that they, there were, there were reports on Bloomberg that there were at least three other banks. Like, like realistically there's a lot more than three other banks that are in a similar situation, but it's like signature out now.

I would guess that more banks are gonna be taken over by the F D I C. So it's like, hey, maybe it was just this capital could move a lot quicker based on the, the nature of the deposits. Um, but that at the end of the day, bitcoin's there to replace the dollar and that the idea of everything is good for bitcoin.[00:51:00]

and that Bitcoin strengthens in stress that people are going to go out and find other banking relationships, right? And so if we're here in Austin again, like now all the regional banks seemingly have problems, but, um, but JP Morgan's also banking Coinbase, right? So, um, really they were, and I expect that they still are.

Um, I know that Coinbase was using Silicon Valley Bank and, um, signature as well, but, um, that people are gonna go have to rely on relationships to get access to bank accounts. But at the end of the day, a Bitcoin HA has to survive independently of the dollar system. And that episodes like this will actually accelerate that process.

Right. And that's, um, I don't want to turn to it just yet, but that's like part of my issue with this whole NAR thing too. That's like, there's, there's a lot that needs to be [00:52:00] built. . Like, well, everyone's wasn't expecting you to bring up nas. Well, everyone's fucking around with like social apps is like, you know, for the last month and a half, two months.

Like then the banking system collapses and then the banks that that Bitcoin companies have been relying on are gone overnight. But everyone's fucking talking about social apps. You know, I see

**Marty:** now, and we're in the middle of this, I see Parker's been screaming at me in the comments for like two months.

Like, stop talking about master. We've gotta fix this money system

**Parker:** first. It's like, if you didn't have access to the US banking system as an on-ramp, what would you build? Right tho That's what people need to be thinking about in. , because that's what, that's ultimately what's going to have to exist. And that on the one hand, it's gonna make a lot of people's lives more difficult of like access to banking because the bank dollar system is still the predominant system.

And it's like, we can't, we can't put our heads in the sand and act like that's not the case. But [00:53:00] ultimately that won't be there. It all will all have to be rebuilt. And so thinking about when, when these type of events happen, when whether it's choke point or just, you know, like go back to when, I mean this was before I was even in Bitcoin, but just using as a relatable example when Mount GOs failed could be like, oh shit, this shit, you know, dream's over.

And it's like, no, what, what did people, what did the free market do? It set off a wave of, of advancement, of self custody. Right. What, what will this do? It will set off a wave of advancement of, uh, of transactional circular economy application. Yeah. And, and not just like circular economy in the sense of like, um, I'm gonna go buying in good, but, but the tools that are necessary to, um, to make that happen, right?

Because it's not just like, as easy as I'm gonna facilitate a payment. Like there's a lot of infrastructure that needs to get built between then payroll services thing, you know? Um, so it's like, what, what if I couldn't rely on the [00:54:00] dollar system to, to be this intermediary Good. What would I do? Um, and I, and I think that that will set off a wave of people thinking not to say like, everything that people decide to build is just gonna magically work, or that they're gonna get the timing right.

But those are the type of things that happen when, you know, kind of everyone's waking up and saying, ah, yeah, like, maybe I took. You know, I can use the dollar as an intermediary for granted. What would I build if that weren't the case? Because it seems like now maybe I need to be thinking about that on a, on a much shorter time horizon.

Well,

**Marty:** with this context in mind, what is your priority list of things that need to get built look like?

**Parker:** I mean, I, I think it's, um, ultimately facilitating direct commerce. Um, and that doesn't mean like, hey, we really gotta focus on this word circular economy. But it is like, hey, like thinking about, you know, what would it look like to, um, pay for power in [00:55:00] Bitcoin?

Or what would it look like to pay for gas in Bitcoin? Or, um, you know, how do we educate the people that have the resources? Cause education's a big part of this, right? . The, I think the biggest risk to Bitcoin is surviving the, the dollar's destabilization event because the dollar coordinates economic activity and we all rely on the dollar.

Um, and that it's making Bitcoin functional and viable as a direct, um, competitor or, or like a functional in directly facilitating commerce and directly facilitating commerce means not using the dollars in intermediary, you know, so, so, and the analogs is like, well, what are all the thing, how are all the, the ways that the dollar are used, right.

Um, because like an e-commerce payment is different than a. utility building. Like, like if you were thinking about settling oil for dollars, it would be different than if you [00:56:00] were buying something on the internet and it would also be different than if you were buying something at a point of sale system.

Yeah, right. In person. So like the word payment has many different variants. If you were managing payroll in Bitcoin, how would you do that? Uh, there's a lot of privacy concerns when you start to think about, you know, well if, um, a company was, you know, out of a single transaction paying all of its employees, then every employee could theoretically know, you know, like what everybody else is making well, right?

So, um, the word payment is like overly broad, right? But it's thinking about all the different types of transactions and then what are the most important, or what are the most important relative to where we find ourselves today. So that's like one half of it. The other half of it is like, help educate people who have critical skill sets.

or that you view as critical, right? Because there's, everything's subjective, but things like, you know, energy [00:57:00] and food and transportation and, you know, right. Like the getting, getting those people to be in a position to be able to see this. Like one of the things I put out yesterday was like, we gotta get Bucky's

I saw, I retweeted that, you know, where, but it's like, well, there's actually a technology that needs to be built. Um, and when I say technology, I use the term loosely. There's infrastructure, there's software infrastructure that would need to be built if someone wanted to be able to take Bitcoin and payments for as a gas meters running.

It's similar to what companies like, um, sonno or um, . Satoshi's Energy. Satoshi Energy, there's a few others. Distributed Charge are thinking about like ways to, to use the Lightning Network to facilitate payments. But, but realistically, it's like, hey, if, if nobody who sells gas accepts Bitcoin and the dollar hyper inflates, that's a real problem.

But how are, how are, how are you gonna get there? Just using it as a, [00:58:00] I'm not saying gasoline is like the only thing we have to be considered, but, but what, what I'm talking about is like thinking about the problem first. Somebody that sells gas has to know enough about Bitcoin to be willing to deploy it, right?

Or to be able to put themselves in a position to receive it. That's one half of the equation. The other half of the equation is, well, how would you technically do that? You know, would it be feasible? And, um, and things, critical points. Because when I think about something like that, it's like, okay, well if, if someone who was delivering gas to.

you know, a, a community of people, well they've got a bunch of customers too, cuz then they gotta go up the chain, right? Because there's ultimately that's oil and refining and getting it to gasoline. Um, but like thinking about like the critical economic points that matter the most, um, because those things don't just magically happen overnight.

Um, and if people are diligent about spreading the word, the more people that have Bitcoin and understand [00:59:00] Bitcoin at the, at the point of the dollar destabilizing, the more, probably the less pain that's gonna have to be felt. Yeah,

**Marty:** I completely agree. And now I see why you've been telling us not to focus on No.

For the

**Parker:** last couple months. Yeah, I mean it's like if, if you go into a fall on banking crisis, it's like, it's like being thrown into the. being thrown into to water when you either sink or swim. Yeah. Right. And that, that's also why, um, you know, I don't get too caught up. I like, I, I do think that there is a, like the hypocrisy of like, the people like Bill Ackman and, um, David Sax and Jason Cal Canis, like, like to a certain degree it makes your blood boil, but then you have to like, put that down and be like, honestly, like the whole system is broken and you gotta keep your eye on the prize.

Um, it's like, yes, those people were looking out for number one, they don't give a shit about, you know, they're not patriots. They're not, you know, they're not in this for the American people. Um, [01:00:00] and, and if you kind of detach from like, some of the cronyism that happens and like, yeah. It's like, yeah. So Silicon Valley people got bailed out, whatever, like.

the whole, the whole system is broken and we have this new system, Bitcoin, and, but if we don't focus with urgency to, to build the things that we need and, and get distracted, then it's not to say that, I mean, Bitcoin will survive. It's just we either have to tolerate more pain of economic instability or less, and the more focused and the, um, the quicker, um, that we can build infrastructure to divorce from the, the destabilization of the dollar the better.

**Marty:** Agreed. And again, it's pretty crazy that this is all happening right now as we're leading into the Bitcoin takeover. At the end of this week, there'll be a lot of Bitcoin events here in Austin during South by Southwest throughout the week. And again, talking about the motivation, [01:01:00] the front end, the first order that you need to knock down before you get to that implementation is educating.

these key stakeholders throughout the economy about why Bitcoin? Like how has the events of the last few days sharpened what we're about to do this week in Austin?

**Parker:** Yeah, and I, I really think about it as like, this is bitcoin week. Every, every, I like to say every every week is bitcoin week in Austin, which it is.

Um, more and more Bitcoiners are showing up to the shores, um, from wherever less, uh, they're retreating. Yeah. Falling back. Yeah. Um, consolidating. Um, and, but so Tuesday we've got, um, the Austin Lightning developers meet up here at the Commons. Wednesday we're having an hrf event with, uh, Alex Gladstein, um, human Rights Foundation kind of talking about what he's doing, not only [01:02:00] with Human Rights Foundation, but also in and around Bitcoin to advanced freedom.

Throughout the world. Thursday, we've got a series of events. Lisa's doing a, uh, Lisa from Base 58 is doing a node larp, so kind of, uh, I've never done it. I'm looking forward to doing it. Um, an interactive kind of, uh, red mastering Bitcoin kind of understand fairly well how Bitcoin transactions work, but a live interactive session where you're actually participating in, uh, at a technical level to understand that.

Um, then we're having awesome bit devs later that night, and then that, that leads into the Bitcoin takeover on Friday, where the commons will be, um, wall to wall. We've got 20 speakers, 12 talks, um, kind of cover the range of, you know, the kind of really trying to do, do a number of things for the takeover.

But, um, it, it's really built for people that are highly engaged in Bitcoin as well as expanding the tent and sending that signal to. new people as much as being valuable, which is hard to solve for both of those two. [01:03:00] Um, but, but striking a balance to kind of go into kind of deepening people's understanding of Bitcoin while it's like sending a signal to stakeholders that might not be as engaged or, or engaged at all to say like, yeah, I thought that this thing Bitcoin was, uh, you know, kind of just like another thing to trade on the screen, but there's a bunch of people here that are laser focused and a bunch of smart people doing a lot of interesting things, building infrastructure and talking about Bitcoin on a plane that I had never thought about it on.

Um, and so, um, you know, really that's what the, the takeover's about and I think that it happening this week. We're in the midst of, you know, bank runs and bank failures and systemic crisis that I think it, it will sharpen a sense of purpose of why people are here, sharpen a sense of engagement, also help galvanize people because it is like, it was a little bit scary.

Like, you know what, what if you went to the bank and your debit card didn't work? You know, like that. You'd be like, [01:04:00] what the fuck would you do? You know? So, um, it's not to make light of any of that, um, but I do think that it hap, you know, the takeover in bitcoin week in Austin this week happening with a backdrop of what's happening in the legacy financial system.

It does renew a sense of purpose as well as individual focus of, of why we're here, what we're doing, um, and how we're gonna move forward.

**Marty:** Yeah. What would we say to those, those people that we're trying to bring into expand the tent? Like this week, you think any of them were thinking like, ah, I can't go to Austin.

Like things are too crazy. I need to, uh, put my house in order, uh, because the banking crisis unfolding, like, why should you take time this week to come learn about Bitcoin? .

**Parker:** Yeah. I mean, I think that, um, there are certain people, I mean like if you work for Signature, you work for Silicon Valley Bank, like I get it, but, um, anybody else, it's like the time now is like, the only way we're moving forward is, is by forward direction.

Um, [01:05:00] and that now is the time to engage. So it's like, it, like everyone has to take care of their, their home base, right? But, um, but you have to do that while you continue to move forward. And there, I, I views, you know, it's like, I'm so glad that the, the takeover's happening this week because it is that it is a galvanizing force, but it also refocuses where it's like whatever you are doing on whatever timeline, whatever interest you had in Bitcoin, it should be accelerated by this.

**Marty:** Agreed. Right. You should be more motivated than ever if you're building in the space. And that's another interesting thing to bring up. Obviously Bitcoin was birth. in the aftermath of the 2008 great financial crisis between now and then. We've had European credit crisis Cypress, uh, in like 2012. 2011. 11 2012.

Yeah. Um, fast forward Covid March 12th, 2020, and now today, [01:06:00] 2023, we had this banking crisis. Bitcoin's reaction to this particular crisis that's unfolding right now seems to me to be very different than in the past. Like, it seems like it's hit a point of maturity where people are treating it differently in the midst of these crises.

**Parker:** Yeah. Well, one, I think that the crises are all different. Mm-hmm. , um, and the timing's also different, right? Like, um, I mean, it remains to be seen, but, um, the, the timing's different in the sense of like, Bitcoin has been going down for two years. , you know, or like, and when I say down, like I, I really try not to think about it like, you know, like stock trading, but like there's been a lot of selling, you know, from really starting in the, in March of 2021, April, right?

Like now kind of like rebound a little bit, but then, you know, end of 20 21, 20 22 is like, [01:07:00] that's all, all feels like one cycle to me. Um, and so it's just like anybody who was a weekend like, doesn't mean that somebody else doesn't, you know, have some liquidity need that pops up because of everything that's happened or gets skittish or doubt something for some random reason.

But that any can has functionally been selling for a long time already and there just isn't that. And you know, directionally can't be that much more marginal selling pressure because if you're still holding Bitcoin after all the shit that's happened, um, You probably know something that other people don't, and that does not mean that everybody does, right?

Information isn't perfect, and there's still a chance that there's weekends there, but that directionally there's a lot less of them. So at the same time that that setup happens that oh yeah, there's this other banking crisis or another banking crisis that has happened that's reinforcing the exact reason that you were there in the first place, that each next time that that [01:08:00] happens, you would expect some different behavior.

Now, in a dollar liquidity crisis though, everyone still needs dollars. So everyone has to be like massively, like have your head on a swivel. You know, like survive. All weathers don't expect that just because Bitcoin's rebounding in the face of this, like that is both a very good sign, but it's like keep your eye on the ball.

Like, you know, check your six. , prepare your life that, and at any point Bitcoin could drop 40% overnight or 50% overnight cuz a can and has. Um, but I do think like taking in what's happening, it is all relevant. Like all of this is playing out at a time where, um, we cans have already been shaken violently out of the Bitcoin tree.

Um, what is unfolding is exactly what Bitcoiners broadly have been talking about, why Bitcoin is so important. Um, and they're starting QE five, right? Um, so, [01:09:00] um, the, the future is uncertain but 21 million Bitcoiners, they're gonna print shit ton of money. Yeah.

**Marty:** I mean, you got to imagine there's a Hank Paulson like character somewhere throughout the banking sector on his knees in front of the Biden administration or Jerome Powell.

Like you need to step in and not only step in, but step

**Parker:** in massively. . Yeah. I mean, shit, that was Jason Cal Canis and David Sax and you know, but I hear you. Like, I'm just saying like in like the, the political climate, and I bet I, I would guess that, you know, people in the administration were looking at, you know, things that those people were saying online saying, we need to do this.

I'm sure there were people within the Fed that we're saying that as well. Um, it's inevitable though. I think like, that's, that's what I try to, you know, kind of rise above the fray and be like, this isn't about this episode. It's like, if, if I think about the broadest picture, because people were also talking about this, where they, well, if deposits aren't [01:10:00] insured above two 50, which they never were, but like, if, if like, if they actually honored the, the system, then people are just gonna hold treasuries.

And I, it's like whenever Silicon Valley Bank sold their deposits, their reserves to buy treasuries, somebody else now has them. So a hundred percent deposits are held. Always by everyone. A hundred percent of reserves are a hundred percent treasuries. But if you like, look at the broad dynamic, um, the, I think the amount of deposits that are out there, which is kind of demand deposit time deposits, M two is like 22 trillion.

If you, if you pull, we don't need to pull it up, but, but the, um, the amount of cash, all cash that the banks have is 4 trillion, or no, 3 trillion. It was 4 trillion and then they took a trillion out. So there's seven X lever to deposits, right? Because like in addition to deposits, there's, you know, which is one form of credit is there's treasuries and there's MBS and there's all these [01:11:00] things, you know, like you want to get real scared.

Like, go look at the Fannie Mae balance sheet. They have like something like 70 billion of cash and like 4 trillion of loans, , holy shit, you know? Um, and they've gotta reserve against them of like 0.2%. So, um, but, but the point is that like as soon as you go beyond, there are 22 trillion, uh, like M two is 22 trillion deposits.

22 trillion. Those are claims, you know, not all demand deposits, but, but you know, I don't, we could pull up the, the distribution, but like those are a deposit. Is a deposit deposited someone's mind that if they show up to the bank and they ask for it, it's there. 22 trillion of those. And the banks will only have 3 trillion.

So doesn't matter if you say I'm going to honor all insured and uninsured deposits from Silicon Valley Bank, that is the dynamic that exists. And if you have this too big to fail prep [01:12:00] scenario, the people are gonna have the, the incentive to move. Um, but it all comes back to the fact that there's too much debt.

and there's not enough dollars and the amount of debt necessitates that they have to print more money. And the whole economic system breaks down because as they print money, the actual utility of the currency degrades or debilitates to the point where it can no longer function. And we are certainly accelerating that path of when it no longer works.

Yeah,

**Marty:** I mean, to, to fix the systemic crisis that exists in the banking SEC sector, you have to create a systemic currency crisis with the value.

**Parker:** Right, the value. Because, because if, because if you think about that world, 22, 20 2 trillion of deposits, 3 trillion of actual cash, each time there's a run, [01:13:00] the reserves stay the same, the deposits stay the same.

They're just moving from the weak to what is perceived to be a stronger place. And the only way to make the system as a whole stronger is by increasing the 3 trillion, um, such that the, the relative movement of the deposits on the top expose a bank as being insolvent less and less. Uh, and that's what they will have to do.

That's what they always have done. Um, and uh, so they will have to, to increase the money supply that it will cause the function of credit to stabilize increase. But the, but the currency itself will degrade, um, because it will exacerbate, it will allow existing imbalances to be sustained and cause greater balances to grow.

**Marty:** Yeah. You heard it here first for ex QE five

**Parker:** has started. Started yesterday. Started yesterday about six, 6:30 PM Eastern. Yeah. Less than 24 hours ago.

**Marty:** Whew.[01:14:00]

Anything else we should add before we wrap up here?

**Parker:** I mean, I think it's just to stay focused. Um, and it's like not to get caught up in the. what's happening at the edges. It's like, I kind of had this like mixed emotion where it's like, it doesn't really matter whether they bail out Silicon Valley Bank.

Doesn't matter whether they bail out and, and like how you're thinking about, I mean, the ba the depositors got bailed out 100%. It was a bailout signature bank. The same, the only one that didn't need a ba bailout was Silver Gate. Like, like, um, you know, so, and others will need bailouts too, but that it doesn't, it doesn't really matter because like, it's like, it doesn't, doesn't matter where the cri the next crisis was going to, uh, where the symptoms of it were going to emerge.

First, they were always going to have to print money and Bitcoin ever since, you know, 2009 or a few years after when it's, when it, you know, kind of [01:15:00] initially probably fortified that it works, has been the solution. So nothing has changed in that regard. Right. And like people can be pissed off that, um, some wealthy people got bailed out, but like, getting hung up on that is distracting.

Distracting. Um, and that the, the productive use of something like this is like, okay, let's, let's refocus on what it is we're building, how we're doing it, what timeline, how we think about it. Um, because at the end of the day, like Bitcoin is not like any, anybody who thinks that the dollar and Bitcoin are gonna coexist in my view.

Or it's like they're either living in a fantasy land cause they, and they don't wanna think about the, what, what it means for the dollar to destabilize or, um, or they just haven't connected the logical dots that that. It won't make sense to have a currency sit on top of Bitcoin. Yeah. Or [01:16:00] in parallel. I,

**Marty:** I've never, I've never liked a theory that Bitcoin's gonna strengthen a dollar.

**Parker:** Like it'll be, I, I think that it's, I think it's, it's literally just something that people say, um, in o oftentimes because they don't want to, to become a political pariah. Um, but it's also not accurate, you know, like if presented with a scenario where I could have Bitcoin and it would be trustless and I could have permissionless access to it, and I could have, you know, both per permissionless access to hold it as well as to transmit it, that is always going to be better than any other currency.

Yeah. Um, if you put a dollar on top of that, well gimme the Bitcoin. Everyone's in that, like, in that trade off. Um, and so I think that kind of the, the productive thing to do is say, okay, like we're not always going to live in this dollar world. And, um, and there's things that if we start to say like, Hey, [01:17:00] maybe this, this non-dollar world is, is sooner than we think it might be because of, you know, the accelerating events probably always has been the history was written, but, you know, what am I gonna do different today with that knowledge?

Um, because it is an immunizing function for Bitcoin. Boom, a few banks that everyone relies on, gone. Well, some people are gonna survive other, not everybody might, but some people are. Um, and the ones that do are gonna adapt and it is gonna create this further decentralization of the Bitcoin network. Um, because ultimately the decentralization of Bitcoin's liquidity comes in direct commerce.

Someone selling something at a store, uh, car dealer selling cars that liquidity builds. And right now liquidity in Bitcoin is logically and, and, and I think reasonably consolidated in the most liquid asset, which is the dollar or the euro or the end, wherever, whatever currency it might trade against. Um, but [01:18:00] ultimately money is not only the most liquid good, it's the good that has the greatest diversity.

And that when people think about selling a stock for dollars, that's that the thing about the dollar liquidity. But the dollars liquidity is goods and services and that's what bitcoins will become. And we don't have to focus on like, we need circular economies, it's just that we need to be building infrastructure to allow for direct commerce, to allow for bitcoin's liquidity to diversify.

Um, because that's where it was logically gonna go anyways. And now the, the risk to the system is more clear and more present than it, than it was to a lot of people yesterday. Yeah. Batten down the hatches freaks and. , um, come to all the Bitcoin events in Austin. Um, I've got a few tickets in my back pocket, um, that I've held onto.

So if, uh, if there's any, if there's a, a freak or two that, that sees this and says, Hey, I need to get to Austin this week. [01:19:00] Um, just for the freaks here. DME

**Marty:** DM Parker. I was gonna say, batten down the hatches. Get focused if you aren't invigorated right now and motivated to fix these problems. Cause like you said, it was a bit unnerving over the weekend to watch all these banks fail and prominent people, prominent companies, not able to access their money.

Really drove the problem that we're trying to fix to the fore very aggressively in a short amount of time. We've got a lot of stuff to build. Yeah. We've got a lot of

**Parker:** people to educate lot. Yeah. That's a big part of education. Yeah. Like helping people that have these skill sets that are critical. , um, to our energy supply chains, particularly way more important than a lot of other things.

**Marty:** Agreed. All right. Let's go get to work. Yeah.

**Parker:** Peace and low freaks.