

Ivory's Economic Outlook

SUMMER 2021 • IVORY JOHNSON; CFP®, CHFC; FOUNDER; DELANCEY WEALTH MANAGEMENT, LLC

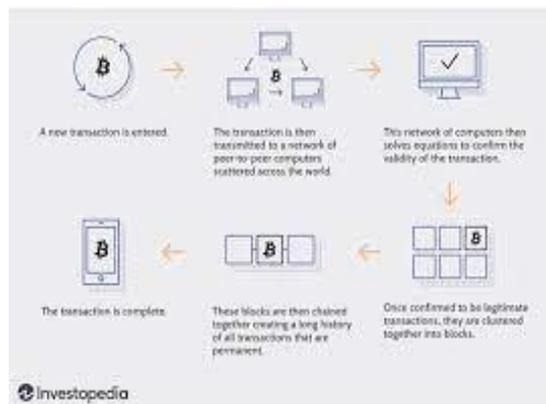
A perfectly straight shot with a big club is a fluke.

Jack Nicklaus, 18-time major golf tournament champion

My father's Mercedes was so old that it had reached "and something" status, which is to say his car had 300 "and something" thousand miles before he was finally convinced to buy another vehicle. He ended up getting a 2010 E Class with all the bells and whistles when a steering wheel, four tires and a radio would have sufficed. When I asked him how he liked his new car he said it had everything but another woman. Then he asked me not to tell my mother what he just said.

Men tend to repeat the same jokes so I was certain my mother had already heard it, but I guess the doghouse never goes out of business and he's just doing some risk management. He also figured out how to turn on the radio, although he still gets lost from time to time because his memory is failing him. This is where the navigation would come in handy, but now I'm just being redundant.

Unfortunately for us the investment world is not so simple either. As soon as we get our minds wrapped around stocks, bonds and 401(k)s there are these things called derivatives and asset backed securities causing us a bunch of trouble. When we're not scratching our heads about economic insults slipped sardonically onto bank balance sheets we have to concern ourselves with the Federal Reserve because who really knows what they do anyway. Now we have these crypto coins and blockchains that are currencies you can't physically touch on some magical spreadsheet nobody controls that's making lots of people rich (and poor) at the same time.



To be clear, blockchain is a business tool and crypto currencies are an investment. Think of blockchain as a ledger that records transactions. For instance, the blockchain may allow your dentist to record your teeth cleaning, a subsequent root canal and perhaps a filling sometime later. In a blockchain, each of these transactions is verified, recorded in chronological order and cannot be changed because the blockchain is considered immutable.

It is a disruptive technology that will accelerate the current wealth gap that rewards skilled workers. Right now when you buy a house you have to complete an application, provide your tax returns, show bank statements and submit to a credit check. The underwriter takes your FICO score, debt to income ratio and assets into account. An appraisal and title search are standard procedures. If you're self-employed you'll have an easier time passing health care legislation through Congress than having a smooth approval experience.

At some point all of this information will be maintained on a centralized permission based blockchain. Either you have good credit or you do not. Your account balances will be on the blockchain along with the title to the house, your tax returns and debts. The approval will be instantaneous because, well, why wouldn't it be? An algorithm will gather the required data and consummate the transaction without an army of middlemen getting paid. Instead of waiting two months to close on a house it might be done in a matter of hours.

Once we extrapolate this scenario to other industries it's easy to see how many workers this technology will displace. No longer will you need somebody from the university to send a transcript to a potential employer - it'll be on a blockchain. You won't have to show proof of insurance to renew your car registration because the blockchain will know if you're insured, have parking tickets or moved out of state.

Crypto currencies, on the other hand, are not much different than buying a stock or a commodity in the sense that your goal is to make money. While narratives about stores of value, protecting wealth from fiat currencies and the misbehavior of central banks abound, most just want to profit from their endeavors. The coins themselves are exchanged on a blockchain with no middleman. When you put \$1 into a vending machine, press C4 and a candy bar is delivered there are no intermediaries. In that same vein, buyers and sellers of crypto currencies can interact solely through a blockchain. And since coins that have value can be exchanged without an intermediary, money can be transferred anywhere and anytime instantaneously without a middleman. So long Western Union and ACH payments.

It's quite an innovation when you think about it because each transaction is verified by computers trying to solve complex mathematical transactions that validate an entry onto the blockchain. Whoever solves the equation first gets rewarded in the respective crypto currency. The computers that solve these equations are known as miners who allegedly use more energy than some small countriesⁱ. Nevertheless, the blockchain is maintained by what's called "proof of work" to ensure its accuracy. Those birds that eat the parasites off the elephants in the Serengeti desert provide a service and get paid quite handsomely for their efforts - the birds get dinner just as the miners receive coins.

The volatility of the coins, however, is off the charts. It is a bell curve with no bell. Bitcoin saw its value increase from a few cents per coin to over \$60,000, a lottery ticket of sorts sparking the interest of retail investors and institutional firms alike. It can best be described as a rags to riches disruptive investment not yet sold in stores with a hint of Pets.com. Investors include everyone from Hold On for Dear Lifers to blue blood Wall Street once skeptical aficionados. If Bitcoin is a train wreck, nobody can manage to take their eyes off it.



I honestly don't know what investors are to make of something that drops 50 percent in a month after increasing by 600 percent in the last 12 months because they're probably kicking themselves for losing that 50 percent despite getting 300 percent after the aforementioned 50 percent decline. As always, the pain of losing exceeds the joy of winning. I just don't think it's going away any time soon, especially when Fidelityⁱⁱ, Van Eckⁱⁱⁱ, Goldman Sachs^{iv}, J.P. Morgan^v, Bank of NY Mellon^{vi}, Morgan Stanley^{vii}, PayPal^{viii}, ING^{ix} and Deutsche Bank^x among others are now proponents of virtual currencies despite publicly voicing their skepticism in the past.

Of course, there's nothing wrong with changing your mind. In fact, it's probably a good idea. Richard Bookstaber explains in "The End of Theory" that the complexity of our interactions cannot be unraveled with mathematics used to value security prices and build economic models. He opines that treating humans as a machine will fail during times of stress because each individual is acting on a narrow subset of their environment.

He makes the case that individual actions, even if based on established rules, can lead to unexpected dynamics because we live in this non-linear place called the world and economist treat it as if it is indeed linear. It turns out the world cannot be solved; it has to be lived. We can all be doing what makes sense and what manages risk and yet have the results be disastrous. I suppose if we know the present we can calculate the future, but we don't really know the present.

All of this can be loosely translated into a wholesale admission that nobody has a firm grasp on crypto currency investing, especially when different coins represent any number of business models exchanged on various blockchains, each one solving a problem in its own unique way. That said, I won't pretend to have a crystal ball except to say that Bitcoin looks more like AOL than it does Google.

BITCOIN
BlackRock CEO Larry Fink calls bitcoin an 'index of money laundering'
PUBLISHED FRI, OCT 13 2017 2:32 PM EDT
UPDATED FRI, OCT 13 2017 3:04 PM EDT

BITCOIN
Bitcoin is a fraud that will blow up, says JP Morgan boss

FINANCE
Morgan Stanley becomes the first big U.S. bank to offer its wealthy clients access to bitcoin funds
PUBLISHED WED, MAR 17 2021 11:02 AM EDT
UPDATED WED, MAR 17 2021 6:50 PM EDT

Cryptocurrencies
JPMorgan Says Investors Could Make Bitcoin 1% of Portfolios

Goldman Sachs lists 5 reasons why bitcoin is 'not an asset class', nor 'a suitable investment'

Exclusive: Goldman Sachs restarts cryptocurrency desk amid bitcoin boom

Bitcoin is 'useless as a payment mechanism and ridiculous as a store of value,' ex-PayPal CEO

PayPal's Entry to Crypto Followed Long Buildup in Expertise

Visa CEO: We won't process transactions in bitcoin, because it's not a payment system

Visa Is Working to 'Enable Bitcoin Purchases': CEO
According to Visa CEO Al Kelly, the payments giant is looking to "enable the purchase of Bitcoin on Visa"

JUST IN BITCOIN
Deutsche Bank says bitcoin is 'too volatile' to be a 'reliable' store of value
by Nigita Khatri

Bitcoin is now 'too important to ignore', Deutsche Bank says

ING
Why Bitcoin is destined to become a niche asset
A cryptocurrency reality check

BANKS DECEMBER 11, 2019 / 2:33 PM / UPDATED A YEAR AGO
Exclusive: ING working on digital assets custody technology - sources

Technology
Vanguard Sees 'Idiosyncratic Risk' in Cryptocurrency's Wild Ride
Cecile Gutschler and Tom Mackenzie
January 16, 2018, 5:49 AM EST

comcast
Fidelity, Vanguard, Schwab Funds Have Been Loading Up on Crypto Mining Stocks

MONEYBEAT BLOG
Howard Marks Trashes Bitcoin: 'An Unfounded Fad'

The Tell
'I've learned how much I don't know' about bitcoin, says investor Howard Marks
Last Updated: March 16, 2021 at 4:15 p.m. ET
First Published: March 16, 2021 at 3:31 p.m. ET

If you'll recall AOL was the first internet service to be widely adopted and eventually got outpaced by better technology with more utility. The thing is it made a lot of people extraordinarily rich before it went away. Only a process would have cautioned investors from buying a company that was at peak valuations and depended on monthly subscriptions when only three percent of the country had access to broadband^{xi}. Apparently they thought the other 97 percent would stick to dial-up.

In the meantime, the Federal Reserve has purchased \$7.9 trillion worth of bonds^{xii} from the banks to increase the cash our financial institutions can lend to the economy, which in turn makes bond prices go up and correspondingly lowers interest rates. What I just described is what they mean by printing money, a term used to describe the central bank clicking a key stroke to create money out of thin air to buy bonds and liquify the economy.

This causes inflation at a time when the economy is accelerating because your gas isn't getting better, your money is just getting worse. When these two dynamics are increasing on a rate of change basis as they are now, commodities, oil stocks and crypto currencies tend to do well. That environment will likely shift as we compare upcoming numbers to a time when the economy had recovered in the summer of 2020. This may uncover GDP and inflation growth that is actually decelerating as compared to last year. In this setup investors may want to own utilities, REITs and consumer staples like we did in the 4th quarter of 2018.

Many years ago I invited my dad to play in a golf tournament with some of my friends who thought it was nice that I could spend time with my father, even if it reduced our chances of winning. On the first tee he said he would try to get the ball around some trees with the faint sound of chuckles emanating from my buddies in the background. And then he proceeded to draw the ball 250 yards around said trees into the middle of the fairway. What my friends couldn't possibly have known was that my dad was a scratch golfer. It seems that a 70-year-old trash-talking single digit handicapper is a non-linear event.

It's never as good or as bad as you think it is, so all we have is a repeatable golf swing. I don't know if we're beginning that transition to slowing economic growth and inflation or not, but when I find out you'll be the first to know. And for those who will never own a virtual currency, I will gladly take those rewards points and sky miles off your hands.

Securities offered through IFP Securities, LLC, dba Independent Financial Partners (IFP), member FINRA/SIPC. Investment advice offered through IFP Advisors, LLC, dba Independent Financial Partners (IFP), a Registered Investment Adviser. IFP and Delancey Wealth Management, LLC are not affiliated.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. Past performance is no guarantee of future results. All investments involve risk and may lose value. There is no assurance that the objectives of any strategy will be achieved. No strategy can guarantee a profit or fully eliminate the risk of loss.

The S&P 500 is an unmanaged index which cannot be invested into directly. This index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment, and a potential total loss of their investment. Information provided here is for informational purposes only and is not intended to be, nor should it be construed or used as investment, tax or legal advice, a recommendation, or an offer to sell, or a solicitation of an offer to buy, an interest in cryptocurrency. An investment in cryptocurrency is not suitable for all investors.

-
- ⁱ Bitcoin consumes 'more electricity than Argentina'; BBC; 2/10/21
 - ⁱⁱ Fidelity to launch bitcoin ETF as investment giant builds its digital asset business; CNBC; 3/24/21
 - ⁱⁱⁱ It's time for a bitcoin ETF, Jan van Eck and Som Seif say; MarketWatch; 4/13/21
 - ^{iv} Goldman Sachs is close to offering bitcoin and other digital assets to its wealth management clients; CNBC; 3/31/21
 - ^v JPMorgan to Let Clients Invest in Bitcoin Fund for First Time: Sources; Nasdaq; 4/26/21
 - ^{vi} Bitcoin to Come to America's Oldest Bank, BNY Mellon; Wall Street Journal; 2/11/21
 - ^{vii} Morgan Stanley becomes the first big U.S. bank to offer its wealthy clients access to bitcoin funds; CNBC 3/17/21
 - ^{viii} PayPal launches crypto checkout service; CNBC; 3/31/21
 - ^{ix} Exclusive: ING working on digital assets custody technology - sources; Reuters; 12/11/19
 - ^x Bitcoin is "too important to ignore," Deutsche Bank analyst says; Investing.com; 3/18/21
 - ^{xi} 15 years later, lessons from the failed AOL-Time Warner merger; Fortune; 1/10/15
 - ^{xii} Federal Reserve's Balance Sheet Could Hit \$9 Trillion, Report Says; Wall Street Journal; 3/24/21