An Important Note: NFTs, Crypto Currencies, and other 'new opportunities'

Recently there has been a lot of attention paid to NFTs, crypto-currencies like bitcoin, and other new technology-driven investment opportunities.

An NFT is a "non-fungible token", a unit of data on a digital ledger called a blockchain, where each NFT can represent a **unique** digital item, and thus they are not **interchangeable**. NFTs can represent digital files such as art, audio, videos, items in video games and other forms of creative work (Wikipedia). In other words one can now create something and formally establish its uniqueness. In the art world, artists would number their works when producing an identical series to clarify how many were produced. But even then there is the fear of fraud or forgery. Going forward all of that may not be necessary. Second, as with a Wayne Gretzky rookie card (one sold for almost $1.29 million USD – LA Times), it is impossible to know how many are still out there. NFTs will allow us to keep track. The 'digital ledger' would establish how rare, and therefore how valuable, an item is.

A cryptocurrency is a digital currency in which transactions are verified and records maintained by a decentralized system (blockchain) using cryptography, rather than by a centralized authority (Wikipedia). In other words, it is intended to be used as a currency. But instead of being issued by a central government (who can simply print more and more), it is provided by a third party who limits the total number and, using the blockchain, keeps track of each one. The currency itself then becomes rare.

Both of these innovations rely on the blockchain, a new technology that is expected to track items and record exchanges without the possibility of being hacked or altered. The blockchain has incredible potential and there are a large number of applications that are only now being pursued. However, it is not simple to invest in the 'blockchain'.

But one can invest in NFTs and/or cryptocurrencies and such activities are making headlines. So allow me to give my two cents worth.

First, I believe that when one invests there should be a very reasonable expectation of profit based on the 'intrinsic' value of the item, the price paid and the future outlook.

Second, the value, or certainly a range of value, should be determinable based on fundamentals, including profitability, cash flows and other tangible factors, in addition to some intangibles. There should be comparable opportunities that provide a 'reasonable' test.

In contrast, both NFTs and cryptocurrencies have none of these in my view: There is no method to determine value. There are no fundamentals to be analyzed and there is no future value that can be discounted. There is no 'reasonable' test. They do not produce any profits, nor earnings, nor cash flows.

One simply pays a price (whatever it may be) and hopes that this specific item will be worth more to someone else in the future. If tomorrow no one is interested in the NFT you bought for $10,000, you have nothing of value. Equally, if bitcoin falls out of favour, for any reason, you are left with a digital item that produces no profit and no benefits.

I am not saying that the NFTs and cryptocurrencies are worthless. It may be safe to assume that there will always be someone wanting to own Wayne Gretzky's rookie card or a new digital composition of dogs playing poker. Nor am I saying that one cannot make money in such markets.

What I am saying is that I do not wish to take part. I have heard all of the arguments about the need and benefits of such items but these never address value. To me, a cryptocurrency and NFT make the same amount of sense when at $1 as they do at $50,000. The price is arbitrary in my opinion and that is my warning.

How can one invest with no objective way, no way at all, to assess value? It can increase in value from $10,000 to $50,000 in a few weeks, but what is it actually worth? Without having a fair value in mind how do you determine when to buy and when to sell? At $50,000 do you buy on the hope that it goes up to $100,000 over the coming year? If it falls to $30,000 instead, do you then sell? I don't see anything that can determine this. As far as I can tell the vast majority of those encouraging buying of such items are those who already own them and wish to push prices higher, or those making money by selling such products.

I cannot in good conscience buy anything that could be worthless in an instant, simply on the hope that I get in and out before it collapses. I would refer to that as Speculating, not Investing.

Below is a podcast from Planet Money that tells the story of how the digital artist Beeple sold his digital art for $69 million dollars.

They discuss the pros and cons of NFT's in the world. At the end Beeple does state that he feels it is a bubble.

It is an interesting story for those that would like to know more.

https://www.npr.org/2021/03/12/976513031/the-69-million-jpeg

Market Update – March 2021

Overall the major equity market indices rose nicely again in March while the bond markets fell again. This year the big winners this year have been the small caps, value focused funds and preferred shares. Leadership always rotates. And since it rotates unexpectedly, we use a discipline of diversification and we spend little time trying to read 'tea leaves'.

Economic news varied from fair to stellar. Earning for the last quarter grew nicely with a vast majority of companies exceeding expectations both with their sales and their earnings figures. And earnings remain the most highly correlated data point with prices.

The following chart shows the price of the S&P500 in dark blue and the earnings in light blue. As long as companies increase their earnings one should expect the share price to increase. .. but with the ever-present volatility that cannot be removed and must be accepted as part of the price one pays in one's attempt to make money in the stock market.

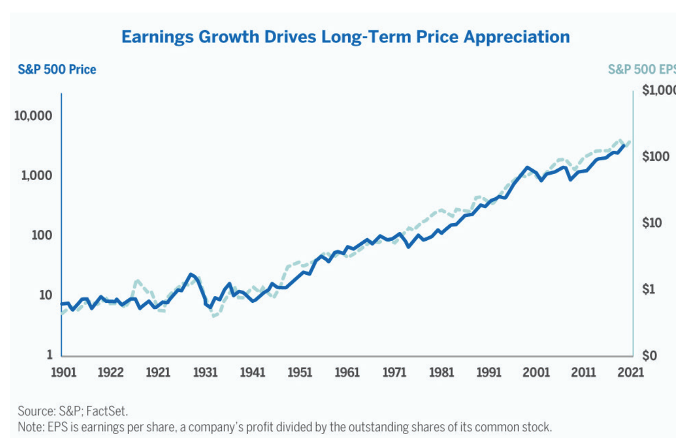

Chart from Alger

… and earnings are expected to continue to increase.

Additionally, the US government is spending trillions of dollars and hoping to spend more.

Almost $2 trillion USD was approved for COVID-19 relief , though much of the funds are being spent on non-COVID projects. The next $2 trillion USD is being requested to support infrastructure projects across the country. I expect the Canadian government to follow suit in their long awaited budget, spending money on a number of projects that they deem important. Whether you agree with the merit of any of this or not, my point is that money, a lot of it, is out there and there will likely be more. During such times I believe one should not bet against the markets.

Lastly, another significant trend at the moment is spending. After setting record levels of savings, the average consumer appears ready, willing and able to spend. The pent up demand could be such that once the economy re-opens (after we all have vaccines) we could see a rush to malls, restaurants and vacations. The spending wave could be significant. I am sure that some will not be comfortable doing such things for a period of time, but the limited capacity could easily be filled by those who are.

Putting this all together the current bull market can continue for a number of years. No one knows. But I raise this, not only to share some of what I am reading, but to provide an outlook that does not appear in the main stream press. Positive views of the future do not sell.

Unfortunately most investors prefer to wait until it is common knowledge that things are getting better .. but by then they could have missed most of the market increases. The time to invest is when you have funds to invest. The only decision is how and our long-term plan addresses that.

We do not believe that the current market is in a “bubble” comparable to 2000. The fundamentals look much better, we are exiting a recession rather than entering one, the consumer has much more capacity for spending, and rates-adjusted valuations are much more reasonable.

Looking forward, we believe the economy is in decent shape, earnings continue to impress, political uncertainty has waned, volatility remains high, inflation remains benign and interest rates remain very low. While some stocks are obviously overvalued (and they may remain so, or become even more so, for a while yet), there are prudent opportunities being found by those willing to do the research.

We remain neutral to positive in the short term, and positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the Month, the bond market was down 1.3%, the Canadian market up 4.8%, the US market was up 3.4%, International markets were up 2.6%, the Emerging markets were down 1.6%, the Real Estate market was up 3.6% and the preferred market was up 2.3%. (Reuters 3/31/21) [1]

Year-to-date, the bond market was down 5.2%, the Canadian market up 8.9%, the US market was up 5.4%, International markets were up 4.3%, the Emerging markets were up 3.58%, the Real Estate market was up 7.4% and the preferred market was up 9.1%. (Reuters 3/31/21) [1]

Have a great month and let us know if there is anything we can do for you,

- Meir

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[1] Indexes shown
Bonds FTSE Canada Universe Bond Index - CAD
Canadian Equity - S&P/TSX 60 Index - CAD
US Equity – S&P 500 - USD
International – MSCI EAFE Index - USD
Emerging Markets - MSCI Emerging Markets Index - CAD
Real Estate - Dow Jones® Global Real Estate Index - USD
S&P/TSX Preferred Share Index - CAD