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"YOU REALIZE YOU REALLY WEREN'T SUPPOSED TO TRY TO KEEP UP WITH THE KARDASHIANS?"

JUNE 2021

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Tales from the Crypto -Article by Mark Lazar

Give me control of a nation's money and I care not who makes its laws. Mayer Amschel Bauer Rothschild

Despite posting solid earnings data, stocks finished mixed in May. The [S&P 500](#) gained [.55%](#), and the [Dow Jones Industrial Average](#) finished up [1.93%](#), whereas the [Nasdaq](#) shed [1.53%](#).

Of the 95% of S&P companies which had reported earnings, 86% were ahead of forecast. S&P earnings growth increased [51.9% YOY](#), the highest since 2010.

Item	YTD Change
Dow Jones Ind Avg	13.76%
S&P 500 Index	12.61%
Emerging Market Index	6.03%
Barclays Agg Bond Index	-2.29%
10-Year Inflation Forecast	2.42%
2021 GDP Growth Forecast	5.7%
Unemployment Rate	5.8%

**Market index data as of 5/31/2021*

It's almost impossible to watch an episode of *Mad Money*, *Squawk Box* or pick up a financial publication without seeing some reference to cryptocurrency. While I've touched on the crypto phenomenon in the past, it clearly warrants a deeper dive.

Let's start with what money is. Money is typically defined as a [medium of exchange](#), usually in the form of [banknotes](#) and coins. But money can be anything we perceive to have value, such as paper currency, coins, wampum, bitcoin, etc. Good money is also a [store of value](#); meaning if you tuck your cash under the mattress today, you can purchase roughly the same amount of goods and services a year from now.

But what gives the dollar value? The marketplace. Essentially, if you're willing to work for \$18 per hour, then you are willing to trade one hour of labor for eighteen dollars. In turn, the local gas station may be willing to sell gas for \$3 per gallon, and the corner fast food chain offers hamburgers for \$2 each. Another way of looking at the value of your labor is that one hour of your time is worth six gallons of gas, nine hamburgers, or some combination of the two. And if the price of gas and hamburgers goes up, you will likely demand a raise from your employer. In other words, money is [fungible](#). In and of itself, money has no value. It's only because merchants will accept greenbacks in exchange for stuff that makes it valuable.

The idea of a paperless currency goes back to 1982, when scientist David Chaum penned a treatise entitled [Blind Signatures for Untraceable Payments](#), which proposed the concept of an electronic cash payment system. Sixteen years later, Wei Dai wrote a dissertation detailing his concept of digital money, based on mathematical computations, which solved a [proof-of-work](#) system.

By the early 2000s, the concept of digital money was widespread, but it wasn't until [blockchain](#) technology emerged that it became a reality. If you're not familiar with blockchain, it's the operating system that cryptos, like bitcoin, Ethereum, and tether, run on. Think of blockchain as a decentralized, digital form of record-keeping. Rather than being stored on a single server, blockchain is stored on and powered by many different computers. This means there is no third party intermediary custodial/recordkeeper fees. Think costless, frictionless, immediate transactions. Regardless of the future of cryptocurrency, blockchain technology is the real deal and is both revolutionizing and democratizing the financial service world at this very moment.

Back to cryptocurrency. In 2008, a nine-page whitepaper was published under the pseudonym [Satoshi Nakamoto](#) entitled [Bitcoin: peer-to-peer Electronic Cash](#), and that same year the domain name, bitcoin.org, was registered. The following year, the first-ever block of bitcoins, known as the Genesis Block, was mined.

There are currently over [7,000](#) cryptocurrencies, with a market cap of [~\\$2 trillion](#). To put this in context, the [USD](#) money supply is [~\\$20T](#), or ten times larger. However, the market value of cryptocurrencies has increased [elevenfold](#) in just over one year.

Cryptocurrency isn't actually money ... yet. Until you can purchase a bag of groceries, a cup of coffee,

and a tank full of gasoline with it, it's simply a speculative novelty. However, it's gaining ground. Microsoft, Wikipedia, AT&T, Burger King, KFC, Overstock, Subway, and a number other companies are currently accepting certain cryptos as payment in limited fashion. However, one of the biggest hurdles facing crypto is the wild price volatility. In the span of less than one year, the price of bitcoin surged from ~\$10,000 to ~\$63,000, then dropped below \$34,000. How can a company manage accounts payables/receivables and payroll when values can fluctuate over six hundred percent in a manner of months? They can't. Remember; good money is a store of value, which means the amount of goods and services you can purchase with a unit of money is relatively stable.

[Gresham's Law](#) posits that bad money chases out good money. In other words, when two forms of money are equal in debt-paying value but unequal in intrinsic value, the one with the lesser intrinsic value tends to remain in circulation while the other is hoarded. For example, the US Mint stopped producing silver coins in 1964. Why? Because the intrinsic value of a silver coin was greater than its value as [legal tender](#). To illustrate, a 1964 Kennedy half dollar is 90% silver, 10% copper. If smelted, the market value of the silver and copper together is over [ten dollars](#), or twenty times more valuable today, whereas a 1964 paper dollar is still worth just a dollar.

Most cryptocurrencies are clearly a flash in the pan, riding the wave of hype and zeal. However, a digital currency with a finite quantity, like [bitcoin](#), is potentially a better store of value than a [fiat currency](#) increasing in quantity [26%](#) YOY. Make no mistake; central bankers and policymakers alike are running scared and keeping a watchful eye on the crypto market. Heightened government scrutiny increases the risk of unfavorable legislation, including taxation, regulation, and criminalization.

Besides the inherent difficulty in taxing a monetary system designed to facilitate direct/peer-to-peer transactions, (no intermediary reporting mechanism/1099s), a decentralized, private sector currency scheme reduces government's power/control and transfers it to the individual. Historically, Uncle Sam gets money two ways; tax it or borrow it. But now, according to [Modern Monetary Theory](#), he can also print it. Hence, the government is unlikely to look favorably upon a digital currency that can compete with the dollar and thus limit America's ability to pay for multi-trillion-dollar spending programs by simply cranking up the [Fed's printing press](#).

For the time being, the USD isn't going anywhere and will remain the world's [reserve currency](#) for the foreseeable future. However, to dismiss cryptocurrency as a passing fad would be mistake. While the future of cryptocurrency isn't fully known at the present, this tale has just begun.

Mark Lazar, MBA

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Wasatch Team Updates

Wasatch Capital Management is growing! This was a big month with Rees Petersen, Kiera Blinzinger and Kendall Jackson joining us. Rees and Kiera come from Wells Fargo and Kendall comes from the insurance industry. We are excited to have them all on board!



Mark

Mark on a recent rafting trip in Oregon

Stan

Stan & Ronda get 24 family together for Memorial Day Fun in Sun Valley for first time post Covid and cancer treatments for in-laws!



Rees

Rees, Lisa & Rachel enjoying an early morning walk through Red Butte Garden

John

John and Shawn in Napa Valley last month



Kendall

Kendall and her son, Colt, at airport on way to vacation in Hawaii



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