

ECONOMY

Tiptoe Through
the Bitcoin Tulips

THINK STRATEGICALLY:

Tulip and Bitcoin Mania— Equals in Different Centuries

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When will the Bitcoin bubble burst?

Like all bubbles and speculative investments, there is a point in time where a herd of investors enamored by the outsize gains will begin to invest or consider investing in asset classes they do not fully understand or comprehend. Such is the case for Bitcoin, which is the name of the most widely known cryptocurrency and was the reason blockchain technology was invented.

Blockchain is the system used for recording information to make it difficult or impossible to change, hack or cheat the system. Thus, a blockchain is a digital registry of replicated and diffused transactions covering a complete network of computer systems on the blockchain.

What is a cryptocurrency?

A cryptocurrency is the means of exchange, such as the U.S. dollar or euro. However, it is digital and uses encryption techniques to control the creation of monetary units and verify fund transfers.

Let me begin by saying I do not support Bitcoin and do not have any investment interest in it. However, many of my readers and clients have become interested in the asset class, so I decided to thoroughly discuss the subject to allow others to understand it better.

The first thing everyone must understand is that currencies are supported and backed by the taxing authority of a country, using the rule of law, a central bank of the nation. Cryptocurrencies are not backed by any physical commodity or precious metal or the full faith and credit of any nation. Since their creation, the value of most cryptocurrencies, including Bitcoin, has been driven by speculative investment. Throughout much of its history, the present value of Bitcoin has been driven primarily by speculative interest.

Let us look at Bitcoin trading as of May 21, when its estimated value was \$40,437.73. When we compare the price of Bitcoin on June 21, 2014, the price was \$597.04, a 6,830 percent growth.

However, not all is growth for Bitcoin; we note the following:

- Bitcoin Transactions Per Day have fallen to 223,800, down from 302,390, or 25.99 percent less than the same time last year.

- Bitcoin Supply is at 18.72 Million, up from 18.38 Million one year ago, a 1.81 percent increase.

- Bitcoin Average Difficulty has risen to 25.05, unchanged from 15.14 one year ago to a 65.45 percent increase.

- Bitcoin Total Output Value Per Day rose to 2.363 Million, up from 1.041 Million one year ago, or 127.1 percent higher.

- Bitcoin Average Cost Per Transaction rose to 138.86, up from 30.85, a 350.1 percent rise one year ago.

- Bitcoin Market Cap has risen to 720.52 Billion, up from 167.70 Billion one year ago, a 329.6 percent rise.

As you can see by the sheer numbers, Bitcoin and other cryptocurrency investments have captured a sizable following, and plenty of hyped up attention during the current bull market, which benefits from the increased liquidity in the financial markets and the euphoric herd following that emerges from some market rallies.

These cryptocurrencies and other speculative investments have enormous attention and price increases over the past year. We must compare the GameStop saga we discussed at length. As you recall, it was similarly based on pure speculation over a company that was losing money and had no basis to see its stock grow from \$4.59 in March 2020 to as high as \$347.51 on Jan. 27, 2021, to then level off at \$176.79 on May 21, 2021. When the speculation was over, it made a hedge fund collapse and lost billions

for investors, both large and small.

In conclusion, every time anyone asks me about Bitcoin or cryptocurrencies, I tell them the story of the Tulip mania of the 17th century. This was a period during the Dutch golden age in which contract prices for some bulbs of the then-recently introduced, beautiful and famous tulips had reached extraordinarily high levels, and in February 1637, collapsed dramatically like all bubbles. Tulip mania is the first recorded and documented speculative or asset class bubble in history. In many ways, the tulip mania, similar to cryptocurrencies, was more of an unknown socioeconomic phenomenon based on pure fiction. Since then, tulip mania is usually referred to as a metaphor to point to large economic bubbles when prices deviate from their intrinsic values, which is the measure of what an asset is worth.

Week in Markets: With Inflation Fears, Rising Volatility, Stock Rotation Continues

Last week began and finished with inflation becoming the newest fear for investors and, in the meantime, drove markets sharply lower. The Dow Jones and the S&P 500 closed the week with losses as investors continue to perform more aggressive stock rotations. As the U.S. economy and those in the Eurozone continue to resurge from the pandemic lull, there is a sharp rise in the U.S. that has allowed corporate profits to surge, with 86 percent of the corporations delivering better than expected first quarter profits.

The current market dynamics is one with many challenges as the U.S. economy fully awakens from the pandemic shock; so, there still is a diverse set of problems to be mindful of. We are dealing with rising prices whose genesis is the lack of enough production to meet current outsize demand; that price pressure is temporary and will be resolved once manufacturers can meet and surpass demand.

This past week, we saw investors'

inflation fears capture the market's attention and have placed the attention on the Federal Reserve to keep interest rates low until the U.S. reaches full employment. In our view, there should not be any concern that the Fed will do the right thing once the circumstances change; until then, the focus has to be job growth. On that note, the U.S. Initial Claims for Unemployment Insurance fell to 444,000, down from 478,000 last week, or 7.11 percent; while U.S. Existing Home Sales fell to 6.01 million, down from 6.24 million last month, dropping 3.69 percent from the previous month.

The Final Word: Creating Self-discipline.

As I watched my niece Cindy and thousands of other college graduates, it dawned on me what words of advice I could give to steer her and others on the right path as they embark on their careers.

After some thought, I offered this advice: "Change is an inevitable part of life, your growth is optional, and using the power of self-discipline is everything to thrive, grow and prosper."

There are four key elements to achieve self-discipline, and they all work in tandem:

- Self-Control: The ability to manage your actions, feelings and emotions.

- Motivation: The process of stimulating people to actions to accomplish goals.

- Persistence: The strong continuation of the course of action despite difficulty or opposition.

- Goals: The object of a person's ambition or effort; an aim or desired result.

As John Maxwell would often say about self-discipline: "Small disciplines repeated with consistency every day lead to great achievements gained slowly over time."

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Weekly Market Close Comparison	5/21/21	5/14/21	Return	YTD
Dow Jones Industrial Average	34,207.84	34,382.13	-0.51%	11.77%
Standard & Poor's 500	4,155.86	4,173.85	-0.43%	10.64%
Nasdaq Composite	13,470.99	13,429.98	0.31%	4.52%
Birling Puerto Rico Stock Index	2,661.66	2,659.59	0.08%	30.15%
U.S. Treasury 10-Year Note	1.63%	1.63%	0.00%	0.62%
U.S. Treasury 2-Year Note	0.17%	0.16%	6.25%	0.80%