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thoughts on investing

Third Quarter 2021: Tales from the Crypto

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During the Third Quarter of 2021, China, equity valuations, and the debt ceiling loomed large in the headlines – along with news about the growing evolution of crypto-currencies. As market participants continue to learn more about this relatively new asset class and related investor behavior, it is becoming increasingly important to consider the role these asset types can play in one's broader portfolio.

We should note that "crypto" is no longer synonymous with Bitcoin, as there are now more than 6,000 crypto-currencies available today. To be sure, Bitcoin and a few select others may have captured the largest market share from investors, but the wide availability of such currencies is evidence that developers and investors alike have differing views on the mechanics and use of crypto-currencies.

The United Nations recognizes about 180 "traditional" currencies as legal tender, so it is unlikely that all 6,000 of the current crypto-currencies will play a prominent role in our futures – a notion which should guide you in determining how you may wish to invest or trade in this market. That said, the advent of crypto-currency is probably not something that will be spurned entirely; rather, there will likely be some market consolidation, and those crypto-currencies that survive will, by definition, become more established, more prominent, and better lend themselves to traditional forms of analysis as a stand-alone asset class, as well as a tool to be used within a diversified portfolio.

Considering that crypto-currency is a relatively new asset class, it has a short history to analyze. It is one thing to consider the metrics of a single investment – for example, how Bitcoin has a 110% standard deviation based on five years of monthly return data through October 1, 2021 – but we haven't collected enough data yet to determine how the asset class performs through time. Meaning we don't know, with high confidence, how market participants will use crypto-currencies to position themselves at different points in their economic and business cycles. Couple that with the fact that we haven't yet seen the endgame of the crypto revolution – whether more merchants will begin to accept crypto as a form of payment, or what sovereign risks may arise – and we can likely conclude that volatility will persist.

So, what is one to do? It may be easier said than done to put emotions aside – but we suggest taking a look at crypto just as you would any other speculative investment: don't invest more than you can afford to lose, and have an exit strategy in mind for both profit-taking purposes and loss mitigation.

Consider why you may be eager to invest: is it simply a speculative play; an investment in advancing technology; a belief in the increase in currency value for future spending; a thought that crypto will become the new store of value during market turmoil; or something entirely different? Being able to answer these questions should help you build a foundation for determining when and how much you may invest – if you find the investment suitable and you have the appropriate appetite for risk.

One risk in crypto-currencies that became evident during the third quarter was that of regulation. A few moves by the Chinese government made it clear that speculative assets like crypto-currencies would not be welcomed inside their borders, and the price of various crypto-currencies declined as a result. The Chinese government has also started to reign in market reforms as it seeks to shape the use and allocation of its capital and resources. How far China will move toward central planning of their economy and society has yet to be seen, but we will continue to watch the developing situation.

In other news, late in September, Merck announced preliminary results of trials of their new COVID-19 oral anti-viral. Should this drug be approved, it will mean another weapon in our medical arsenal against COVID. With advances in therapeutics, we expect deaths and even serious illness from COVID-19 to decline even further, freeing societies to be able to forge ahead.

Global news and headlines are often a roller coaster of various viewpoints, and our emotions can move quickly from elation to despair and all points in between. However, in your team at REDW Wealth, you have trusted advisors who can help you navigate these emotions and adjust your portfolio as is prudent. If you find yourself with questions, please reach out to your relationship manager and let us schedule a discussion with you.