SWM INVESTMENT REPORT APRIL 2021

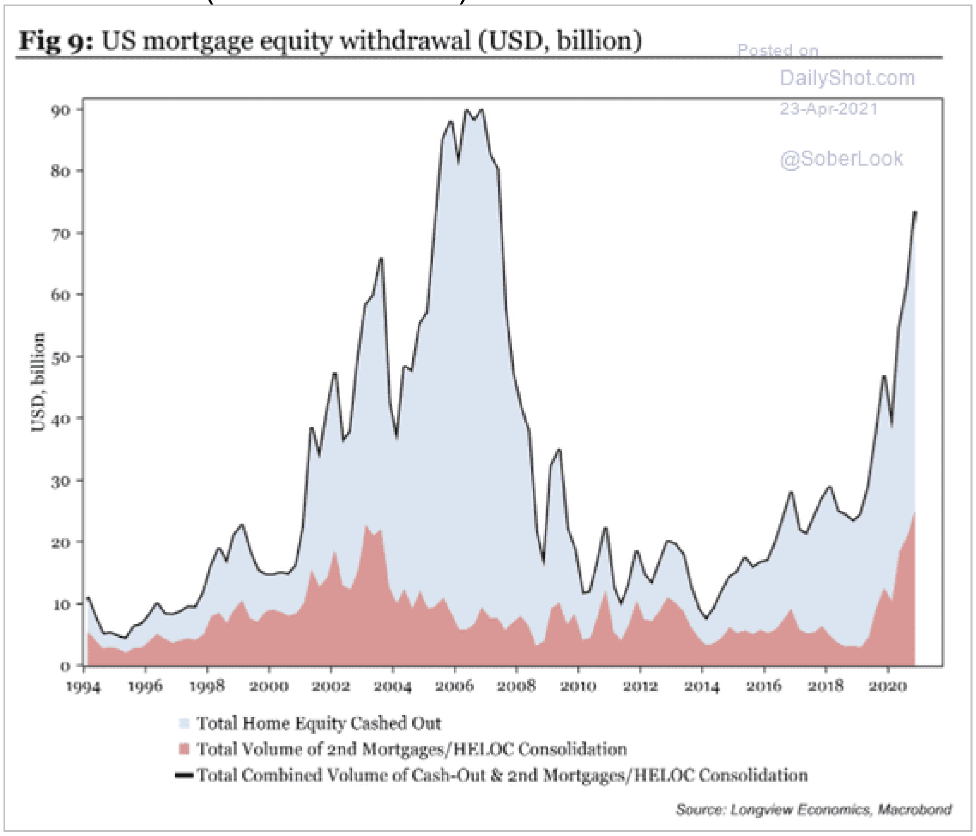
STEWART WEALTH MANAGEMENT

The Bubble in Crypto Currency

Have you ever heard of Litecoin? How about Chainlink? If you go to www.coinmarketcap.com, you will see there are over 4,800 digital currencies being traded and tracked. Bitcoin, which is the most popular, has a market cap over $1 trillion. Just to give you some perspective, it took Microsoft 44 years of delivering exceptional products and services to eclipse a valuation of $1 trillion. I expect 95 percent of these digital coins to go away over the next 5 years and only a handful will make it long-term. It seems eerily similar to the internet bubble of 2000.

The premise to create crypto currencies makes perfect sense. It's an effort to create a decentralized currency system. And some view it as a way to hedge the erosion of the purchasing power of a US dollar. It's no secret that the Federal Reserve and our banking system have way too much power. The dollar is the reserve currency to the world. The Federal Reserve controls the interest rates, liquidity, the velocity of money in the system, and the banks can utilize debt issuance to create more money in the system when rates are low. Hedge funds can leverage themselves to the hills with collateral like bonds. All of these are inflationary measures we are experiencing today. The Fed has also successfully created dollars out of thin air, then turn around and buy mortgages of commercial and residential real estate with the dollars. They have their own balance sheet which can contract or expand without any oversight. It's like somebody turning up your hose while you are trying to water your garden and you have no control of the water velocity or the supply coming out of the hose.

In late March of 2020, after the lockdowns had been announced, and economic fear and uncertainty was extremely high, the commercial and residential mortgage market was temporarily frozen. It was only for a week or so but it was having liquidity and funding problems. Fast forward to the first week of April, and the trillions of dollars in injections and money creation turned into the start of the biggest refinance boom in the history of our country well as a cash-out refinance for the US consumer and homeowner. (see chart below)



The total injection from the Federal Reserve is north of $5 trillion and this is causing inflation or a devaluation of our currency. Since we went off the gold standard in 1971, there aren't many checks and balances on money creation for our Fiat currency system. These are all factors in the development and rise in popularity of digital currencies.

Two Core Positions and 1 Satellite Strategy for Today

In my opinion, owning a balance of US stocks and tangible real estate is the most proven long-term method to build wealth in greater excess than inflation. After all, companies and real estate actually produce something and are backed by something tangible and has more than just perceived value. The S&P 500 and Russell 3000 have averaged 9.8 percent per year over the last 100 years and even more post-1971, after we went off the gold standard. US companies are innovative, and they will find ways to raise their prices and pass that along to their consumers or customers. A prevailing trend is that the stock market has experienced tremendous tail winds with the increased money supply. More money/liquidity = more investment dollars buying stocks. Gold, in my opinion, is not a core strategy for inflation and has actually decreased in value in the last 12 months while stocks and real estate have taken off post-covid stimulus.

The best inflation hedge, in my opinion, is tangible rental real estate. Rents from residential and multifamily apartments generally increase during times of inflation and give investors a stream of income that has inflation protection. The asset itself is likely to appreciate in line with inflation as well. It is extremely important that the properties are in good locations, are well managed, and use moderate levels of leverage. If a sponsor or manager is improving the properties with light construction, then returns may be much higher than inflation. We utilize various sponsors to acquire and manage real estate. And since the trillions of dollars of injections, we have seen tight inventory and short windows for investment before there have been full subscriptions and waiting lists. In other words, people are more comfortable owning real estate than staying in large sums of cash during inflationary times.

IPAY ETF- A satellite investment for today's market

For a more direct way to take advantage of the crypto currency craze through the stock market, there is a mobile payments index (IPAY). The index invests in companies that capitalize on the transition taking place from cash/physical credit card payments to a mobile/digital system. Benefits from the increasing use of smartphones, eCommerce and the need for hassle free transacting. The top holdings in the index are Paypal/Venmo, Square, Visa, etc. There will be a continued rush for companies to capitalize on the move away from paper money transactions. I also expect a ton of new participants and mergers and acquisitions in the sector.

Paypal, for instance, now offers its users the ability to link your bank account and keep your money in any currency as well as 7 different crypto currencies. I logged into my Paypal account last week and was tempted to take a small amount out of US dollars and to speculate with keeping it in Bitcoin…but I did not succumb to FOMO. I have still not purchased any crypto and continue to put my long-term money in stocks and real estate and keep short-term money in dollars. For those who have inquired about Bitcoins and other digital currency, my stance is the same. You can go to a legit company like Paypal and speculate on your own. Schwab offers funds that invest in it, but it never tracks net asset value and that is a real problem with the disconnect in actual value within the funds.

I expect many more companies to enter this space and this index is positioned to do well over the next several years. At some point, the government will decide to regulate digital coins, investigate its use in money laundering and probably just plain tax the hell out of it. But we all know government agencies move at a snail's pace. There is no telling how long this crypto craze will go onward and upward. Either way, the mobile payment space will make its money by charging fees to move currencies from one to another and also fees for the purchase of goods with digital coins. It should be a profitable and growing industry regardless of the direction of digital currencies. Again, there will be plenty of players entering this space, and investing in the basket seems like the best way to play this growing trend.