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Bit by Bit

It has been estimated that there are approximately 100 million Bitcoin owners. Are you one of them? Do you even know what it is? If not, take comfort from this statement by a cryptocurrency expert. He wrote, "...after more than a decade of Bitcoin's existence, there's finally some consensus about what it is." The key words "finally" and "some" indicate what a baffling topic this is to most people. So here's a simple summary to get acquainted with Bitcoin, the first of over 1,500 cryptocurrencies.

The confusion derives from the fact that Bitcoin, essentially a currency, relates to the broad subject of money management, including investment, transaction, value, and banking, to name a few concepts with which we are familiar. And in Bitcoin, each of those concepts contradicts how we have understood traditional practices. From the very beginning, in 2008, Bitcoin was confusing, even mysterious. It was introduced under the name of Satoshi Nakamoto, an individual, or maybe a group, which still hasn't been identified.

Bitcoin is a currency, but one that breaks conventions. While familiar currencies have a tangible feature such as a dollar bill, Bitcoin is entirely digital. Initially, this was so uncomfortable to Bitcoin owners that some people created their own coins that could be touched and exchanged. The various coins you see were not crafted by Bitcoin.

Traditional currency, or "Fiat money," is issued, managed and backed by the U.S. government, as its centralized authority. Our dollars themselves have value through the government's promise to maintain currency value, although no commodity backs it. It is "legal tender." As central authority, the government can print more currency or tinker with monetary or fiscal policy, thus changing the currency's value level. Yet it still has significant control through the immense and complex divisions of government.

Bitcoin has no centralized control. In fact, Bitcoin doesn't really exist as an organization. What Satoshi Nakamoto (who, as stated, may not really exist as a person) created, was a self-controlling system which is digital (storing data electronically) and decentralized (without pivotal control.). When people buy Bitcoin, their transaction is not recorded by an institution such as a bank which is responsible to keep a record in the name of the owner. Rather, every transaction is recorded in a "Blockchain" a linked body of data recording each transaction. The Blockchain is a public ledger in which the individual is represented by lengthy and complex codes, making them anonymous, while the transactions are transparent to every participating owner.

Bitcoin is created through a process referred to as "mining," by which new Bitcoin is produced using high-powered computers to solve computational puzzles. The procedure analyzes, updates, validates and secures the Blockchain, (the ledger of transactions). The miners compete to unravel the puzzles. Winner are rewarded with an amount of Bitcoin.

You can purchase an amount of Bitcoin through a peer-to-peer electric open-source cash system without central control, one without need for an intermediary, whose purchase is tracked on a public transparent ledger, to a buyer who is unidentified apart from a code which can't be readily decrypted! This is not, in any way, your grandmother's currency.

In simplest terms, how do you use Bitcoin? You can use the currency to pay for a purchase from any producer accepting Bitcoin. The number has expanded over time and currently includes such family favorites as Whole Foods, Overstock and Home Depot, among many others. Most people these days buy Bitcoin (BTC-USD) as an investment. It has shown enormous gains as well as stunning losses, so some short term investors risk the volatility, while HODL (hold on for dear life) investors trust in the long-term.

"Bit by Bit" continued p. 2

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"Bit by Bit" continued

How do you participate in Bitcoin? First, open an account with an exchange that supports currency, such as CoinBase. This enables you to buy or sell amounts of Bitcoin. You must fund your account, using either fiat or crypto currency. You will need a digital "wallet," either online ("hot) or offline ("cold") in which to store your Bitcoin. Link your wallet, or exchange account, to a bank account. Then place your Bitcoin order, perhaps just fractions of "coins". Your transaction will be recorded in the Blockchain. You will receive a password, or pin. If the key is lost, there is no way to retrieve either it, or your Bitcoin value. Individual amounts exceeding $250 million have been permanently lost in this way. There are other ways to invest in Bitcoin, such as a Bitcoin IRA.

This is a very brief introduction to Bitcoin, which may help to explain why you always have trouble understanding this cryptocurrency. But stay tuned. Although the original structure of Bitcoin ingeniously obstructs change, modification seems inevitable as observers and participants look to activate adjustments. The legal status of Bitcoin has varied over time and place, and various governmental entities have argued for more regulation, or even closure. Tax rules continue to be established. People in cryptocurrency circles have disagreements on potential new directions. Some are inclined to protect the commitment to the original philosophy (decentralization, personal control of money, transparency, etc.). Some reach for stimulating enhancements.

There are experts who warn that Bitcoin is overly volatile, and less secure than imagined. Yet others believe that it will become a legitimate currency. It likely won't disappear altogether, not after introducing what modern technology makes possible: a currency system that is essentially different from what we have known and practiced.

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"Risk comes from not knowing what you are doing"

So says Warren Buffet. We invest our money with the goal of gaining more, understanding that investing comes with a level of risk, or the possibility of losing money. Most of us lack the sophistication to identify and to accept a certain amount of risk. Buffett mostly meant selection of individual stocks, but his statement is true for the much broader topic of investment risk. These examples illustrate just a few important basics.

1. **What is in your portfolio?** Do stocks feel too risky for you? Asset allocation, or combining different types of securities can moderate potential risk. A portfolio made up of a few diversified stock *funds* will have less risk than a few single stocks. International stocks generally have higher risk than domestic, but diversified strategically with domestic securities, they can reduce the total domestic portfolio's risk level. Diversification allows for a range of risk.

2. **What is our personal financial profile**? The level of risk you can reasonably accept depends on how old you are, how much you are worth, your total debt, your potential liabilities, etc. Those answers tell you how much loss you can abide over a certain time frame, without jeopardizing your financial wellbeing. There are some ventures you should undertake only if you can afford to lose the entire investment, forever. "Too much risk" does not apply equally to different people.

3. **What are your individual temperament and discipline?** The amount of risk you can assume depends upon your ability to make reasonable, cautious decisions before *and after* investing. Are you drawn to assets that are extremely trendy, or highly recommended by a friend? Once purchased, are you tempted to unload it when the sudden losses make you uncomfortable?

4. **What is the type of security, and the financial atmosphere in which you're investing?** Just for fun, peruse these terms that can be found in some investment settings, including the crypto environment, remembering that it was originated in order to operate without central banks and without governments. Are you sensing an atmosphere of risk?

"New Blood/Fresh Meat" - new investors

"Bag Holder" - one who holds on after the price collapses

"FUD" - Fear Uncertainty Doubt. misinformation spread deliberately

"Rug Pull" - a group buys into a cryptocurrency when it's cheap, spreads a hype to pump up the price, then sells, creating bag holders.

"FOMO" - fear of missing out

"Shakeout" - the price drops so low that many sell at a loss

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Economic and Financial Overview

We have had good news in the second quarter, amidst continued dramatic changes. The U.S. economy seems to be in a midcycle phase, boosted by continued monetary and fiscal policies. Consumer spending is healthy and profit margins are high with strong corporate earnings. Job openings have increased significantly as covid threats declined with vaccinations. However, unemployment numbers remain high as jobless benefits lessen motivation, childcare needs reduce workers' availability, and some unemployed workers have chosen to not return to work. Incomes have increased back to pre-pandemic levels, climbing on higher wages and stimulus checks, yet income inequality has reached a century high level. Progressive taxation and public investment are among the policies expected to aim at reducing inequality.

Global economies, also supported by fiscal and monetary policies, have improved generally. However, economic expansion is uneven, varying with the amount of coronavirus spread, and of vaccine supplies. Central banks in the U.S. and abroad so far have maintained short term interest rates at near 0. The U.S. and other countries face risks from above average valuations in several asset classes. Slower monetary support leading to less liquidity growth, may promote volatility. Inflation is growing and is anticipated to increase, although many analysts predict the growth to be transitory.

Overall stock market returns continued to rise as all cap sizes performed well. The S&P 500 rose +8.17% for the second quarter and +14.41% YTD. Domestic small caps were up +4.05% for the quarter and +17.00% for the year. Developed foreign equities rose +5.17% in the second quarter, and returned +8.83% YTD, while emerging markets gained +4.92% for the second quarter, twice as strong as the 1st quarter return of +2.08%.

Fixed income securities have lagged equities. Investment grade bonds rose by +1.83% in the second quarter, but dropped by -1.6% YTD. High yield bonds rose +3.7% in the year's first half.

Are You Having Fun Yet?

Spending money can be fun, but for most of us, managing and investing our money is serious business. It takes time, causes stress, and requires technical knowledge, which explains why so many people hire professional help. However, playing with money has become a type of recreation for many, a source of fun.

Many of these fun-lovers enjoy "meme investing," which in investment jargon can refer to a stock which has been selected by the retail investor, not because of its performance but because it has gone viral online. The sudden popularity entices playful investors to join the crowd, burdened by the FOMO (fear of missing out). Their goal is not to hold onto a stock for its fundamental value. Rather they hope to optimize the gap between their purchase price and their sale price by watching the flow of the other frolicsome buyers. All they need to watch is the *movement* of the stock.

One of the most dramatic illustrations of investment amusement was the sudden throng for the meme GME (GameStop). Members were aware that a certain hedge fund had significantly shorted the stock with the expectation that as the GME price dropped, they could make considerable profits. (Of course they could lose considerable money if the stock rose, but as investment experts, they saw no reason for that to occur.) However, buyers swarmed, driving the price rapidly up, in order to make money themselves, to harm the hedge fund, and to have fun. Observers have noted that this was the first time that a "short squeeze" was initiated by a gang of retail traders.

The swarm was motivated by a huge group of players, members of WallStreetBets (WSB), which is a multi million dollar community or "subreddit" in the website Reddit. Reddit is simply a setting for contributors to post social news, videos, comments of any subject (investments, pets, pizza, etc.). Reddit's content is entirely "user-generated" and can contain pretty much anything, including false information or vulgarity. The contributions are judged either in or out, and assigned to a category. One of these is WallStreetBets, a forum where members also discuss highly speculative investing. In fact, some members boast that they are gamblers, not investors, and refer to themselves as "Degenerates." A core objective among some in this WSB subreddit is to avenge hedge funds for controlling Wall Street and for scorning retail investors. GameStop is not the only target.

If WallStreetBets and Reddit are unfamiliar, you should know that in February 2021, Reddit was the 7th most visited website in the country, and the 18th in the world. 74% of Reddit users are young men. George Soros is quoted saying, "Good investing is boring." Yet these "degenerates" who affirm YOLO ("you only live once"), are enjoying the suspense of betting, the camaraderie of their crowd, the speed, the mental challenge and the ego rush. They're having fun.

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Good for One, Good for All?

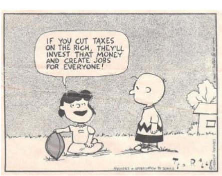
Economic theories are confusing, particularly when mingled with politics, which always are mingled with values. A well-known economic theory, origionally christened back in the 1930s by comedian Will Rogers as the "Trickle-Down Theory," has been claimed as scientific, but also derided as blatantly political. That title, invented in jest as Rogers criticized economic policies of Herbert Hoover, stuck as the theory's unofficial label. The label connotes a general policy and a fervent principle more than a specific policy. For nearly 100 years, that label has been used by its detractors, and avoided by its advocates.

The Trickle-Down Theory has been promoted, or ridiculed by our various administrations although they may not be referring to a single policy. Perhaps that's the lesson here: economic policies, although broadly discussed, are never identical. In the long life of the Trickle-Down Theory, critics and backers often have talked past each other, sometimes dishonestly. The impact of Trickle-Down as a political issue has escalated and changed over time, but it didn't lose its recognition.

Acknowledging the different perspectives of Trickle-Down, here is the general concept: Economic benefits aimed at high-income individuals include income and capital gains tax breaks, as well as reduction in corporate taxes. The benefits' positive impact is supposed to "trickle down" to the advantage of the low and middle classes. Benefiting the wealthy in the short term, this policy is claimed to stimulate economic growth, also benefiting those in lower income brackets. The wealthy are thus enabled and motivated to invest in current and new businesses. Ideally, employment opportunities will grow, general life styles will improve, and, with economic growth, income tax revenue to the government will increase. Everybody wins.

This philosophy was never implemented under Will Rogers' title which remained broadly derisive but also widely familiar. The theory that furthering the resources of the rich would be to the advantage of most everyone was debated throughout the twentieth century, and to the present. Objectors argued that the promised rewards of a Trickle-Down policy (producing economic improvement for all) were highly dubious. After all, the wealth of the most affluent could be shielded in tax havens rather than invested, and there was no assurance that tax revenue would expand, increasing the government's economic capacities. The battle has persisted for decades. In 1896, approximately 30 years before Rogers' label, William Jennings Bryan ridiculed the notion that laws further enriching the wealthy would "leak through" to those below. The Gilded Age (1870s to around 1900) has been called one of the most politically polarized periods in American history. That polarity included a debate between those who believe that the economy would improve through legislation to make the *masses* prosperous, and new laws to increase prosperity for the rich.

Another period of vehement partisanship began around the 1990s and has only intensified since. President Reagan made significant tax cuts through the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986, promising a hike in economic growth as well as in federal income tax revenue. Together, these acts reduced the highest personal tax rate from 70% to 38.5%. The corporate and capital gains tax rates also were cut. Reagan's "Supply-side economics" cut tax rates of most income levels, not just those of the highest incomes. However, it was alleged by opponents to be a device to employ a Trickle-Down strategy which would not have been a widely popular sell.



"Reaganomics" is credited by many to have ended the 1980 recession, although the large increase in government spending (and the near tripling of federal debt) may have had a significant impact. At that time, Republicans were not uniformly in favor of policies involving Trickle-Down strategies. President George H.W. Bush, who criticized Reagan during the 1980 election for what he called "voodoo economics," was later more ambivalent as to economic issues when he became Reagan's VP.

Partisan conflict on Trickle-Down principles became more intense and the title more frequently expressed. George W. Bush's Trickle-Down oriented policy, raised anger from the opposition, but not so heated as responses to Donald Trump's laws, even by some Republicans. Deepening the debate, various studies have measured Trickle-Down success, and have indicated the considerable increase in income inequality over the past 4 decades. Tax policies certainly are not alone in boosting income inequality. But opposition to the Trickle-Down Theory has taken a new turn as it became associated with injustice, outside of the US political sphere. Even Pope Francis used the antique label in a 2013 plea for justice.

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