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Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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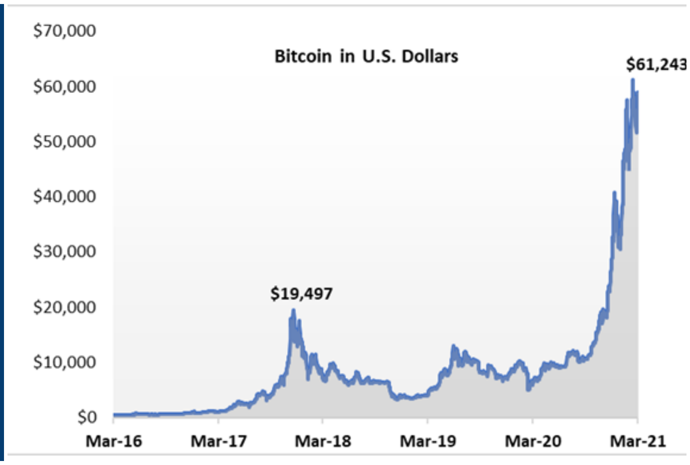
The rise in the value of bitcoin over the past five years has been nothing short of phenomenal. The problem with this success is horrendous volatility. Currencies tend to have stable values to justify their claim as a medium of exchange. Bitcoin advocates cannot make that claim given this history. Because of this volatility, Bitcoin is now considered a digital asset.



A Paradigm Shift?

What is happening to the traditional approach to "investing?" For our 85+ combined years in the investment business, our methodology has been structuring and managing a diversified common stock portfolio of companies that we expect would grow both earnings and dividends. This strategy has produced returns that have outperformed other approaches to investing over long time periods.

Recently there has been a radical change in the earnings-based investment model to a model that espouses new metrics. Investors are pouring money into funds that invest in common stocks based on ideas of fantastic future growth with no current earnings, dividends, or even sales. These companies, some are known as disruptors, have attracted enormous amounts of money based on future events that are expected to radically change our world.

Additionally, over the past year there has been a surge in the popularity of cryptocurrencies, such as bitcoin. Bitcoin was the first decentralized cryptocurrency issued in 2008 by an unknown person or group of people as open-source software. It typically does not exist in physical form (like paper money) and is typically not issued by a central authority. Suddenly, Bitcoin has seen a surge of investors trading the crypto, as you can see in the chart above. After hitting a high of more than $19,000 in mid-December of 2017 it traded in a relatively narrow range until Spring of last year and has since skyrocketed to more than $61,000 on March 13th of this year. "Show me the Money!"

All investments carry risk. Common stocks carry the risk of not producing earnings, cutting dividends, and underperforming an overall stock market index. A cryptocurrency such as Bitcoin is completely speculative since it is solely based on supply and demand. Unlike other currencies like the dollar or gold, Bitcoin has a much smaller market in terms of overall size, thus being more subject to big swings, also seen in the chart above. There is another layer of risk in that Bitcoin could be replaced by more efficient cryptocurrencies or it could be regulated out of existence. We would prefer to continue using a traditional approach by investing in a diversified portfolio of common stocks that have growing earnings and dividends and have proven results over time.

"Give a woman a dollar, and she can put it to good use. Teach her about how money really works, and she can change the world."

Linda Davis Taylor

Market Commentary

March witnessed a rotation into stocks of companies where dividends and P/E ratios made a difference. A rally in oil prices gave the energy sector a boost and claimed the best performer of the first quarter. On the other hand, long-term government bonds took a dive losing, 12% for the first three months of the year. Even though the rotation from growth to value was well-documented, major stock market averages moved ahead for the first quarter. The economic rebound should bolster the earnings of basic American companies and foster a continuing market rally. The fact that the DJIA and S&P 500 hit record highs late in March is a strong indicator that equities are going higher.

The 4 highest months for business applications in U.S. history have occurred during the pandemic. The all-time monthly record was set in July 2020, followed by January 2021, September 2020 and August 2020.
(source: Census Bureau)