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Market Musings

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

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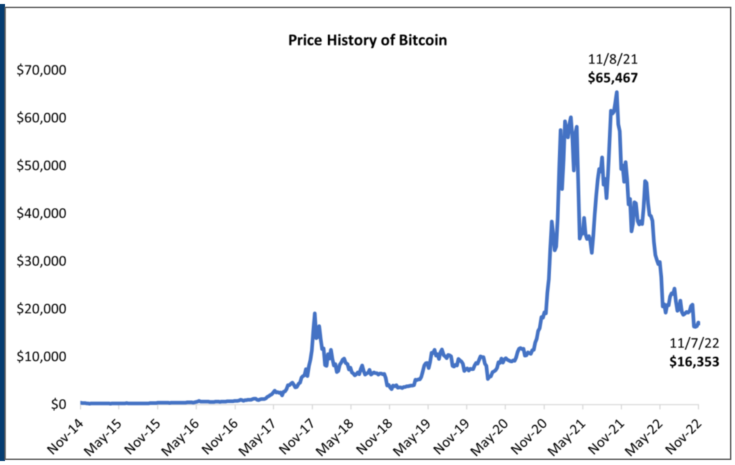
After many years of inconsequential price behavior bitcoin surged in price propelled by the speculation that was an inherent part of the government's Covid response. Once that stimulus ended and restrictive government policies were put in place, bond and stock prices collapsed but substantially less than the decline in bitcoin.



Revisiting the Risks of Cryptocurrencies

After peaking at over $65,000 in the past year for one bitcoin, the premier cryptocurrency, the bloom came off the tulip and the price plunged below $17,000 in November, a decline of 75%! Of greater importance this month was the collapse and bankruptcy of the FTX global exchange that traded in cryptocurrencies. Billions of dollars were lost by investors in these speculative "investments" that were allegedly backed by real assets but in fact were backed by nothing. The gremlin was Alameda Research, a cryptocurrency firm that used client funds to make speculative investments that went up in smoke. As November ended, the crisis in this business was far from over and cries from Congress to introduce regulations to oversee this business were sure to curtail if not terminate the market for these cryptos. Investors who were lured into these depositories lost billions of dollars; with the promise of high interest rates and the assurance that their funds were secure. Essentially their investments have vaporized with little, if any, hope of recovery. To compound the malfunctioning of this speculation, there are stories almost weekly of the meltdown of the cryptocurrency infrastructure as billions of dollars are lost to thieves who can break into the storage vaults for these entities and make away with whatever is there. For many of these firms, all client withdrawals have been suspended. Think of old-fashioned money laundering elevated to boundlessness without regulation!

We are amazed that the crypto debacle has had such a minor impact on financial markets. People are losing billions of dollars and neither the bond nor stock market reflects the expected coming implosion. Celebrities and supposedly knowledgeable people got caught up in this scam and they have lost fortunes. Did any of them know what they were getting into when they not only invested heavily in crypto but also stood up and participated in advertising the advantages of these "coins" that were going to change the world of business and personal transactions? Greed is the underlying culprit and as most of our readers know, we have never condoned any gambling in these virtual currencies. Seasoned professional investors like us realize that the cryptocurrency phenomenon is a speculative frenzy so that is probably why traditional financial markets (basic stocks and bonds) have done better. This story is far from over and in future years we could experience further financial disasters tied to cryptocurrencies. Stay Tuned!

"Year's end is neither an end nor a beginning but a going on, with all the wisdom that experience can instill in us."

-Hal Borland

Market Commentary

The S&P 500 finished out the month of November with a bang and closed above its 200-day moving average (an important technical indicator) which has not been achieved in over seven months. We would have to go back to April 4th to see this positive condition. The index had a total return of 6% for the month, which cut into its year-to-date loss to 14.6%. Both the Dow Jones Industrial Average and NASDAQ Composite also had positive returns for the month. Foreign equities were mixed with Latin American stocks outperforming their Asian and European counterparts. The yield on the 10-year U.S. Treasury note dropped 0.78% below the 2-year yield, the largest negative gap since late 1981. Many investors and analysts see reasons to think that the current yield curve may presage waning inflation and a return to a more normal economy, rather than an approaching economic disaster.

Over one-third of US households have IRAs and over 80% of households with IRAs also have employer sponsored plans. Only 13% of households made an IRA contribution in tax year 2020.

(Source: ICI Research Report)