



JULEX CAPITAL

Cryptocurrencies

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

“The world is full of foolish gamblers and they will not do as well as the patient investors”

Charlie Munger

Are cryptocurrencies an investment?

- No . . . they are not an investment

- Entertainment

- Greater Fool Theory

- The greater fool theory states that you can make money from buying overvalued securities because there will usually be someone to buy it from you at an even higher price
- Eventually, as the market runs out of fools left, prices sell-off
- Due diligence is recommended as a strategy to avoid becoming a greater fool yourself



What are some of the more common digital currencies?

- Bitcoin
- Ethereum
- Tether
- Binance Coin
- Cardano
- XRP
- USD Coin
- Dogecoin



What is a digital currency?

- No physical representation
- Traded via the Internet
- Exist solely as an “electronic record”
- Backed by Blockchain technology
- Fiat currency . . . 99.9% of the time



How big is the cryptocurrency marketplace?

- Recent expansion of the crypto-universe is a thing of wonder
- Only a year ago there were about 6,000 currencies listed on CoinMarketCap, a website
- Today, there are 11,145 cryptocurrencies
- Their combined market capitalization has exploded from \$330 billion to almost \$2 trillion today . . . larger than the entire economy of Canada
- **Bottom line**
 - It's big
 - So big . . . that if anything goes wrong . . . we have a problem

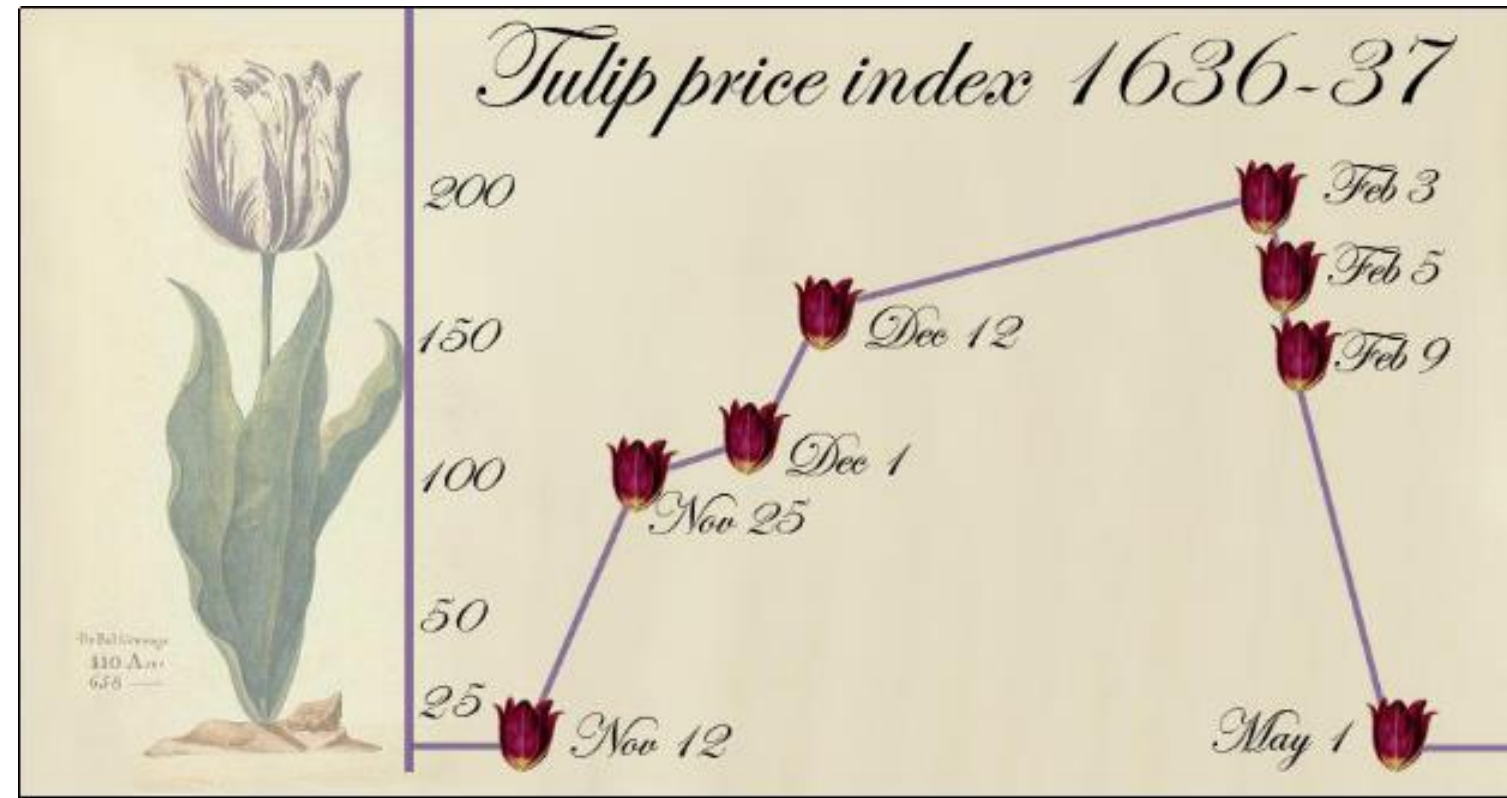
Why are digital currencies garnering so much attention?

- High returns
- Superior diversification
- Social media popularization
- Boredom . . . it's fun
- Federal Reserve having pumped vast sums of money into the economy
- Anti-government sentiments



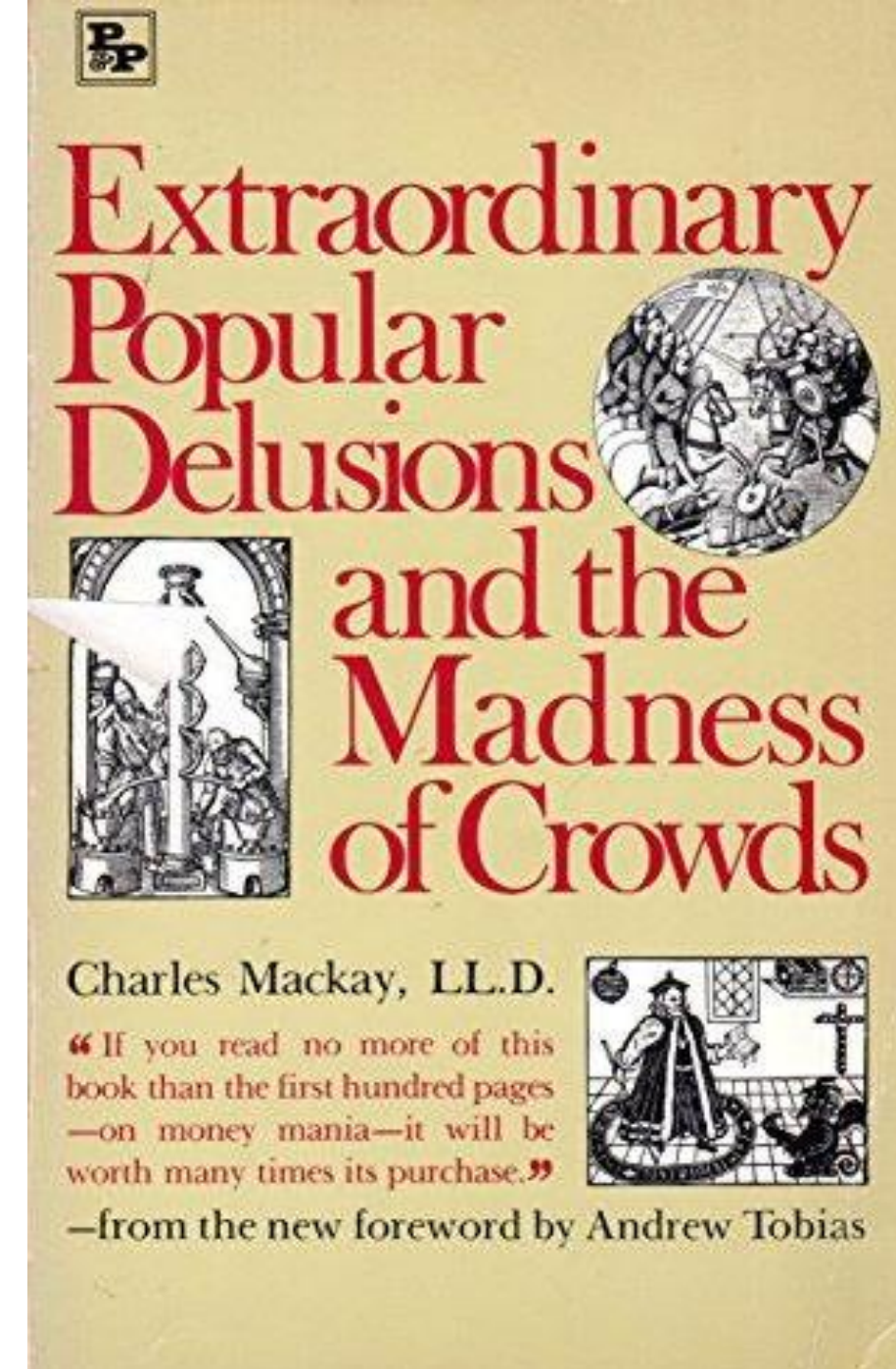
What was the Tulip Bulb Mania?

- First recorded speculative mania that subsumed the retail community
- Netherlands - 17th century
- Started at \$1 delivered a +20,000% return
- Ended below \$1
- Driven 100% by the Greater Fool Theory



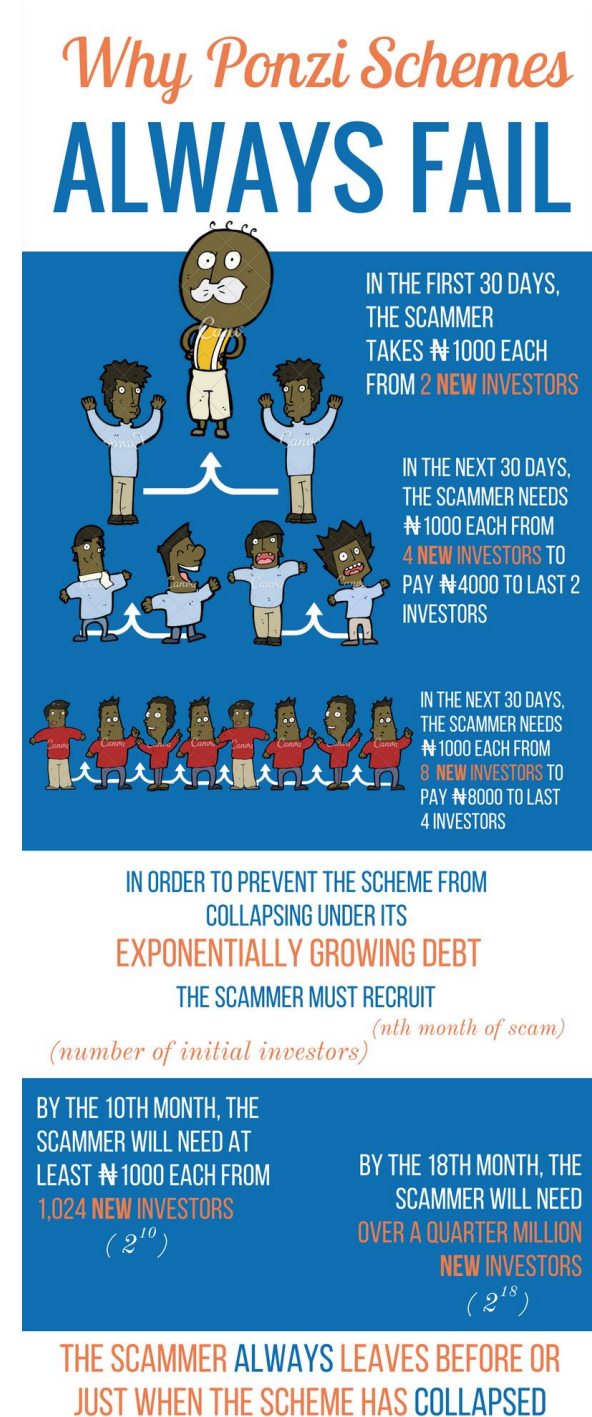
How did it end?

- Most speculators lost their shirts
- Those who sold to the “*Greater Fools*” and exited before the end . . . garnered all of the benefits
- Prices ended up . . . lower than where they started



What is a Ponzi Scheme?

- Sometimes called a pyramid scheme
- Transfer money from the many to the few
- No value creation
- Take money from most speculators (who falsely think they are investors) and give the proceeds to the few
- Simple transfer of wealth from a LARGE number of speculators to a small number of manipulators
- No value is created anywhere in the system
- Society and the economy do not benefit, instead they are hurt



What do Ponzi Schemes and Tulip Bulb Manias have in common?

- Create no new value
- Society, the economy, and almost all individuals . . . do not benefit

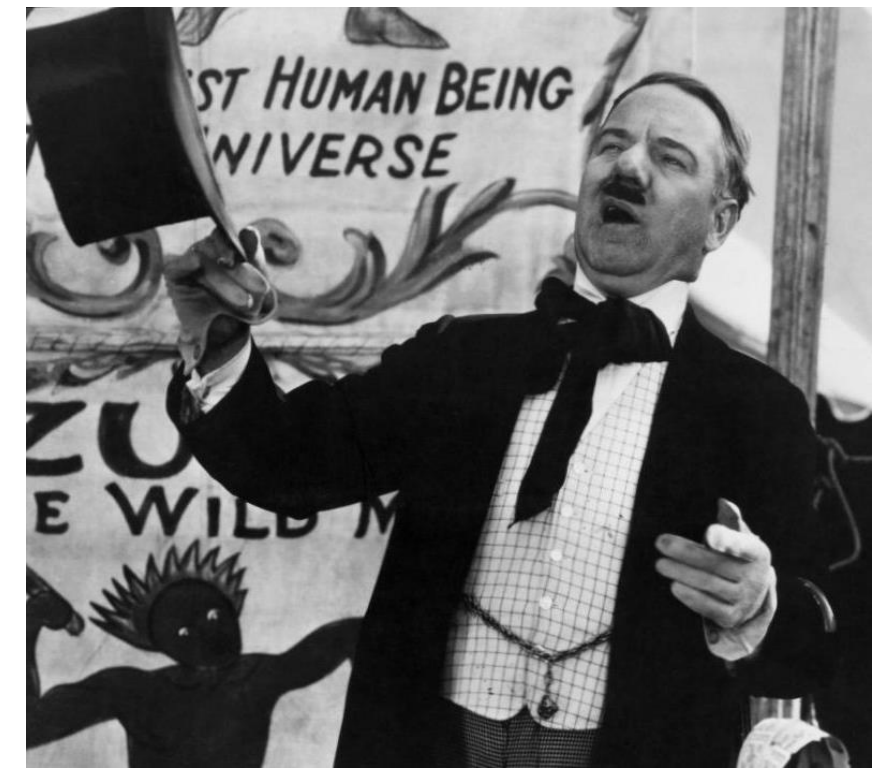
- Driven by

- Emotion
- Speculation
- Next get-rich-quick scheme
- Transfer of wealth from the many to the few
- Sales, marketing, story-telling, embellishment, exaggeration



Will Tulip Bulb Manias and Ponzi Schemes always be with us?

- Fundamental human nature
 - We want what we don't have . . . and want it easy
 - Many will prey on this weakness, separating us from our money
 - Human psychology makes us easy prey
- We are who we are
- Want it quick . . want it easy . . want it now
- Inability to maintain the necessary gap between our wants and our needs . . . and reality



How is a cryptocurrency different from the U.S. Dollar?

- Public vs private
- Public . . . one single entity
- Private . . . limitless number of competing entities
 - Consider the U.S. auto industry
 - Only 30 American car manufacturers in 1899
 - But, 485 companies entered the business during the next decade
 - Only, three are left today
- Public . . . subject to government issues and needs . . . the ultimate Leviathan
- Private . . . subject to market forces and extremes, and unfairness



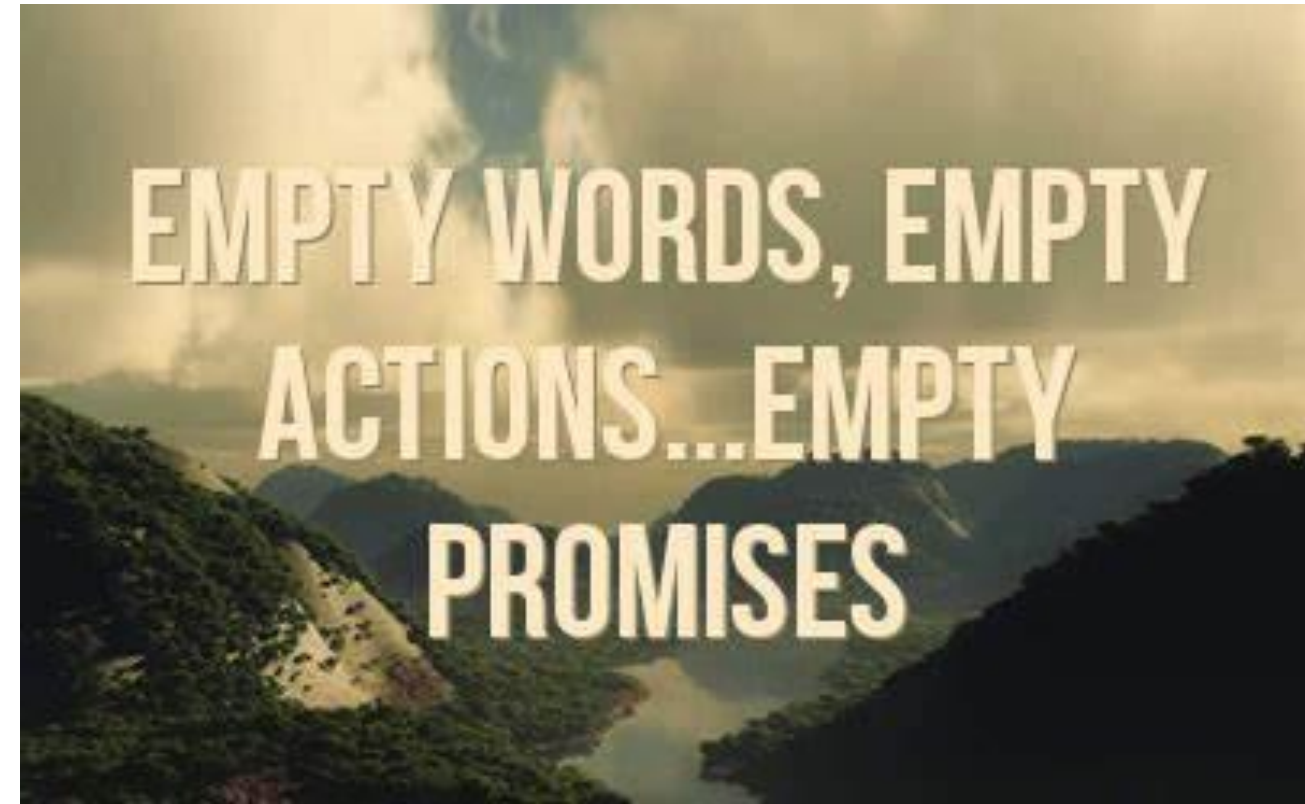
How did cryptocurrencies first establish a beachhead?

- Crime
- Desperate need to seek mitigation from government debasement or confiscation
 - Turkey
 - India
 - China



Do digital currencies produce anything?

- Nope
- Understand an immutable law of nature
 - Often fails to hold in the short-run
 - Always holds in the long-run
- Price = value
- If there is no value . . . then there is no price



Does society benefit from the existence of digital currencies?

- Nope - it produces nothing
- Instead it only creates risks and takes valuable tools away from the government
- Serving to undermine the government's ability to serve their vital role

- BUT . . . to be more honest and broad ranging
- In a dynamic sense, crypto is beneficial in that it
 - Evolves the global banking system
 - Structure
 - Fabric
 - Which had been frozen in time . . . to the detriment of all

- But . . . don't let yourself become *"the pigeon"*



How does crypto differ from gold, rare art, diamonds, priceless antiques? **JULEX**CAPITAL

- Gold, rare art, diamonds, priceless antiques have a long history of acceptance, familiarity, and understanding
- Societal role is firmly cemented . . . based on many thousands of years
- These four (and only these four) are cast in stone
- Will they change . . . yep
- But, glacially, gradually . . . they're seriously embedded within the structure of all

- Crypto is not, it is the thinnest of all possible veneers
- It could go to zero this afternoon . . . or 5x in price



Are cryptocurrencies just another Tulip Bulb or Ponzi Scheme?

- **YES . . . in the sense that so much of crypto market behavior has been driven by**
 - Emotion
 - Next get rich quick scheme
 - Criminal elements
 - Desperation to seek shelter from feared government debasement/confiscation
 - Sales, marketing, carnival barkers
- **NO . . . in the sense that**
 - The planet's banking system is made from seriously old outdated cloth
 - It needs to be thrown out
 - We need to recreate the global banking system from whole cloth
 - Crypto is helping to encourage, drive this reinvention
- **Perils**
 - There are serious perils along the road to this transformation



Why are brokerage firms facilitating the holding/trading of crypto?

- As they should . . . they serve the long-term needs of their shareholders . . . employees, and clients, and society in general
- As such . . . if they see an opportunity to become more attractive to their clients . . . they seek to harvest that opportunity
- Their mission is not to make the world a better place . . . it's to make their constituencies better off (shareholders, employees, clients)



Why are a growing roster of businesses accepting payment in crypto?

- They see a new business opportunity
- They see a channel by which they can gain a competitive edge . . . seeking new clients and deeper client relationships

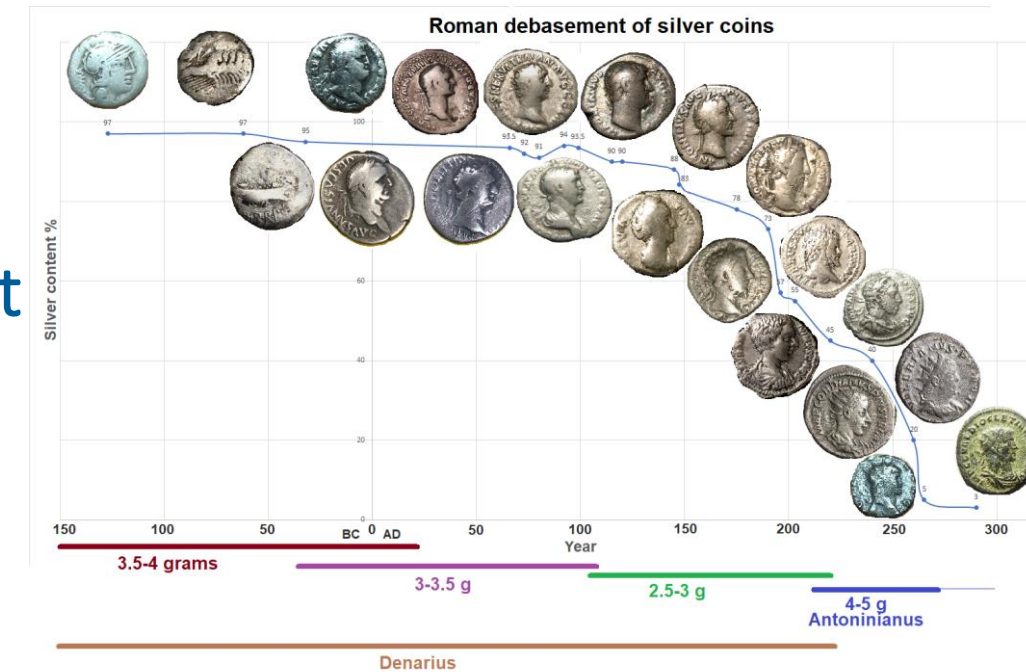


- Story telling
- Purposeful attempt to confuse the difference between the specific and the general
- Mean spirited
- But not at all surprising
- Don't let yourself become *"the pigeon"*



Does it matter that the government can't debase crypto?

- YES . . . governments cannot debase crypto, nor can they confiscate . . . but, that doesn't prevent or inhibit debasement
- NO . . all crypto have a conflict of interest . . true fact . . they are incentivized to debase . . . only issue is, can they control and limit this risk . . . it is exactly the same risk that every government faces
- So ask yourself . . . which would you trust more
 - A private group of investors who will always remain anonymous and invisible and not subject to examination
 - A government that although conflicted . . . is not anonymous, remains in the sunlight, and is always subject to examination



- Federal law and regulation dictates that advisors and investment managers remind their clients . . . on a regular and period basis that
- *“Past performance is not an indicator of future performance”*

27 Principles Every Investor Should Know

Principle #11: Past Performance is no indicator of Future Performance



Why are governments so concerned with crypto?

- Loss of monetary policy
- Loss of seigniorage
- Loss of global reserve currency
- Loss of tax revenue
- Support of criminal element
- Loss of threat to foreign nations that misbehave
- Financial stability



- Fiscal and monetary policy
- Two of the most powerful/useful economic policy tools that governments have to wield

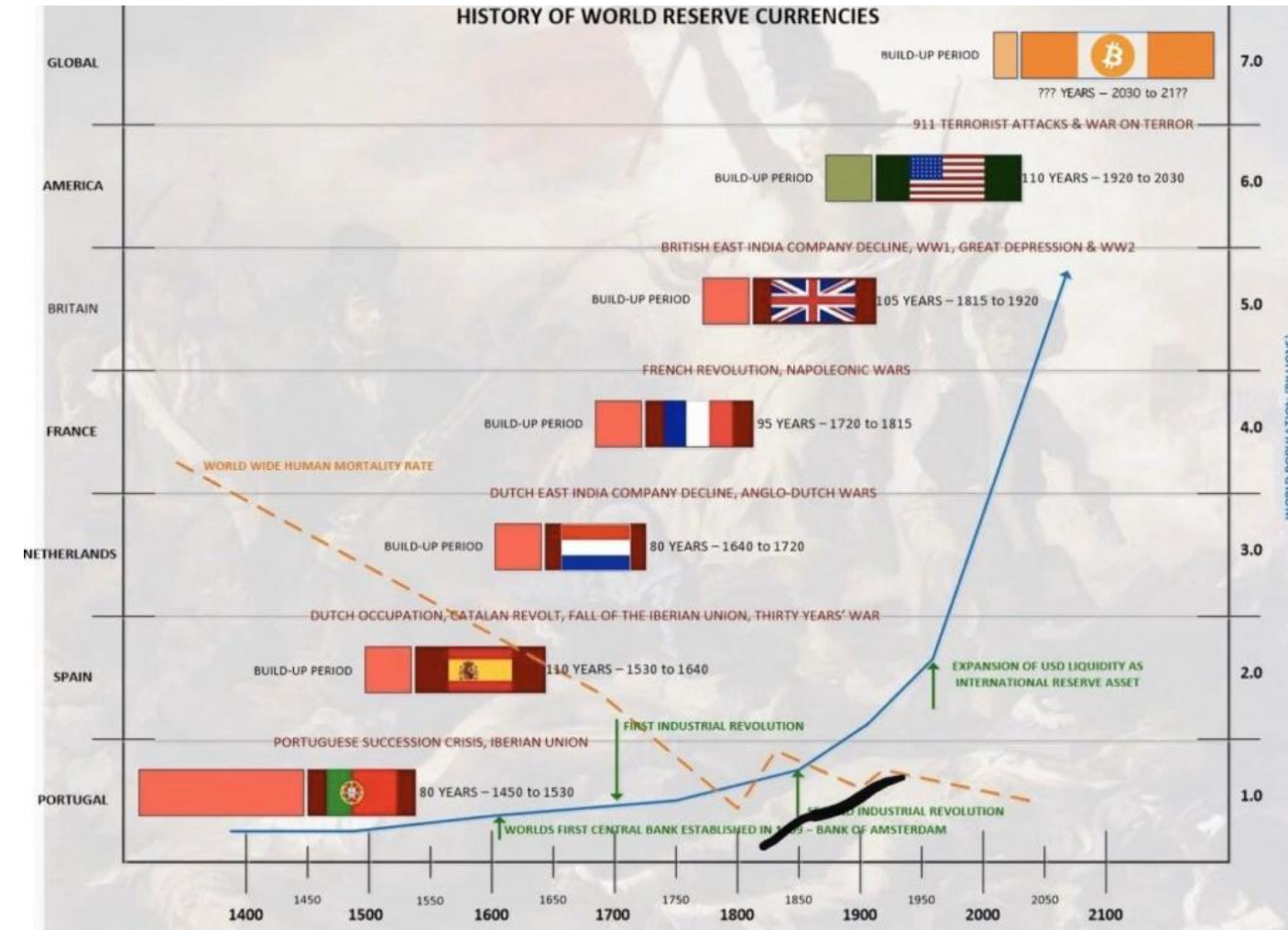


- A remarkably efficient mechanism for obtaining revenue . . . avoiding explicate taxation
- But of course, it can go too far



Loss of status as the global reserve currency

- The greatest free-ride that American's have experienced since WWI
- We give foreign nations pieces of paper and ink . . . in exchange, they give us valuable goods/services
- This is a seriously BIG deal



Loss of tax revenue (harder to track)

- It you can't track it . . . then you can't tax it
- Taxes on many \$trillion . . . is a pretty big deal



Support of criminal element (harder to track)

- Ransomware has demanded payment . . . only in cryptocurrency
- Why?
- As have other criminal activities



Loss of threat to foreign nations that misbehave

- If you can't lock down a nation's bank accounts
- Then you can't hold them accountable



- If the multi-\$trillion cryptocurrency market were to unravel or crash
- Such an event becomes seriously disruptive to the fabric of the global financial system



Mo

Finance & economics

The disaster scenario

What if bitcoin went to zero?

A thought experiment helps uncover the links between crypto and mainstream finance



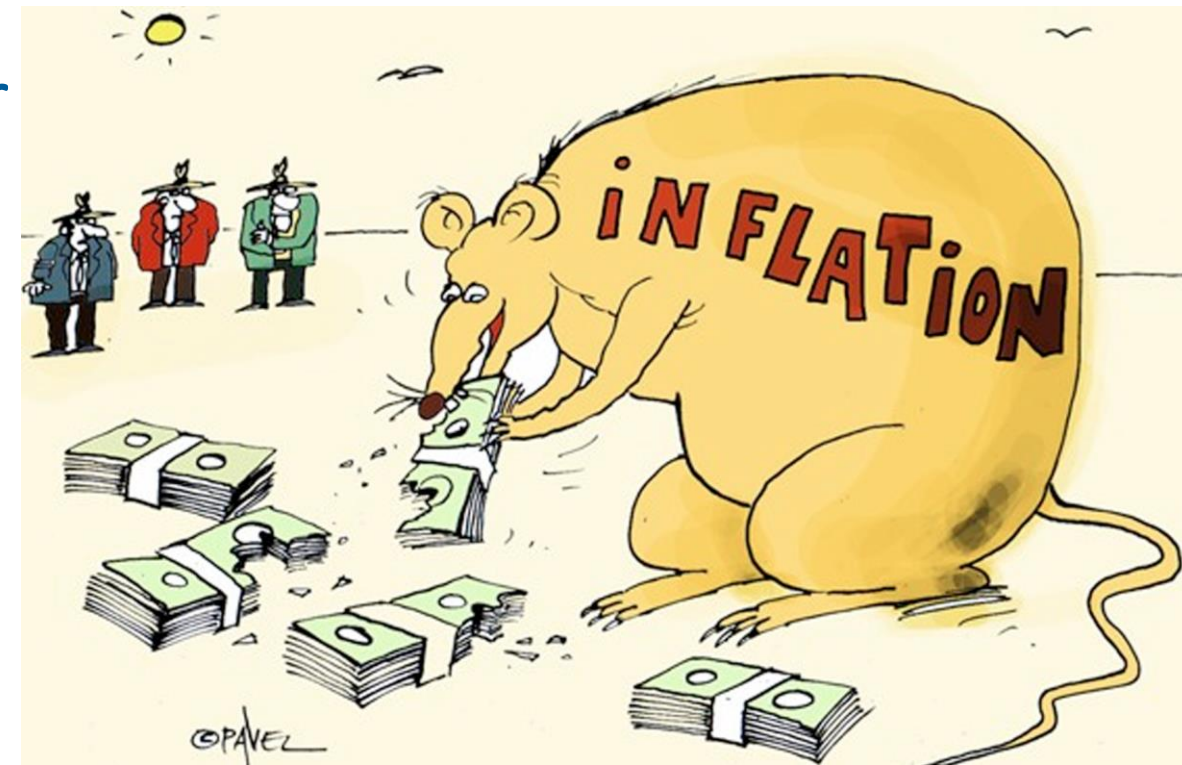
Why haven't governments around the world, acted already?

- U.S. financial regulators have struggled to get their arms around the fast-growing world of cryptocurrency
- Unlike in the securities and derivatives markets, no single regulator oversees crypto exchanges or brokers
- As the market value of the asset class has exploded, so have scams



Are cryptocurrencies a protection against inflation?

- Don't fall for the pitches by the carnival barkers
- We've all been there before . . . and it never ends well
- How many cryptocurrencies are there?
- How many new cryptocurrencies could be created?
- Do they have any less of an incentive to debase their currencies?



Are cryptocurrencies subject to fraud, theft, or loss-of-access?

- Yep
- And there has been a lot of it
- We're talking about hundreds of millions of \$Dollars of loss
- Don't let yourself become "*the next pigeon*"

THE WALL STREET JOURNAL.

English Edition | Print Edition | Video | Podcasts | [Latest Headlines](#)

d U.S. **Politics** Economy Business Tech Markets Opinion Life & Arts Real Estate WSJ. Magazine Spo



POLITICS

Crypto 'Wild West' Needs Stronger Investor Protection, SEC Chief Says

Gary Gensler highlights platforms that allow investors to borrow against cryptocurrencies

Is the environmental concern real or potentially misplaced?

- Yes, Bitcoin is an energy disaster
- But, this is not a necessary or a needed attribute of digital currencies
- Once again, individuals with axes to grind have grabbed the headlines



What is crypto's expected future return?

- ZERO
- The expected future return on digital currency . . . or on cryptocurrencies is ZERO
- Will it be zero? . . . of course not

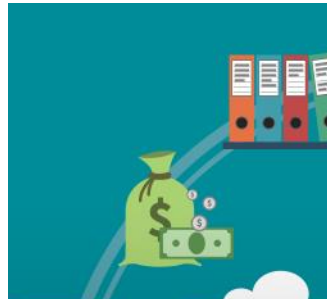


Why is this the expected return?

- In the very long-run, value and price match
- If cryptocurrencies actually create nothing . . . if they have no inherent value . . . if they do nothing to fundamentally benefit society
- Then, in the long-run, their value is zero and their price is zero
- They are inherently worthless
- They are inherently “fiat currency”
- But one without government backing



Is the fabric/structure of the banking system old and outdated?

- Yep
 - Was designed and created a long time ago
 - Has remained frozen in time . . . And is incredibly outdated and inefficient
 - Fails to take advantage of current day technologies and capabilities
-
- WHY?
 - Government regulation
- 
- A stylized illustration in the bottom right corner. It features a green money bag with a dollar sign on it, sitting on a white cloud. A blue arrow points from the bag towards a shelf with four colorful binders (orange, red, blue, and green). There are also some dollar bills floating near the bag.



How is crypto associated with the modernization of the banking system?

- It is a driver (a force) for change, for evolution
- The Blockchain technology that underlies cryptocurrencies . . . serves as a basis for a reinvented, evolved global banking system
- One that is more efficient, quicker, cheaper, more transparent
- So, the benefits are seriously BIG
- But don't confuse that with cryptocurrencies



Question and Answer

You will need to take yourself off of “MUTE” to ask a question

Important Disclosures



Any data or statistics presented herein, were provided by Bloomberg Financial and/or Global Financial Data, Inc. on August 4, 2021

Julex Capital has no opinion on or concerning cryptocurrencies and/or digital currencies. Julex Capital does not recommend for or against their use or application. Any views offered herein are exclusively those of Rob Brown, PhD, CFA.

This information in this presentation is for the purpose of information exchange. This is not a solicitation or offer to buy or sell any security. You must do your own due diligence and consult a professional investment advisor before making any investment decisions. The use of a proprietary technique, model or algorithm does not guarantee any specific or profitable results. Past performance is not indicative of future returns. The performance data presented are gross returns, unless otherwise noted.

The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.