Cherry Tree Wealth Management

May 2021

CHERRY TREE WEALTH INSIGHTS: *Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.*

INVESTING QUOTE OF THE MONTH:

"Cryptocurrencies- stay away from them. It's a mirage." —Warren Buffett

SHOULD I INVEST IN BITCOIN?

Some of the most popular trading products in 2021 have been digital currencies like Bitcoin, and many of them have more than tripled in value so far this year. Bitcoin is a digital asset that works as a medium of exchange where individual coin ownership records are stored in a computerized database to secure transaction records, control the creation of additional coins, and verify the transfer of coin ownership. Many people believe these digital currencies will supplement or replace traditional government currencies such as the U.S. dollar. Some people are worried about traditional paper currencies due to inflation and rising government debts and are looking for a "safer" place to have their money.

We do not believe Bitcoin and other digital currencies are "investments" in the traditional sense and they do not have a place in our investment portfolios. They do not provide an income (interest or dividends) for investors, and there is no way to value them. For most of them, we believe their intrinsic value is zero. They are extremely volatile trading instruments that can be fun for gambling and speculating with a very small (less than 1%-2%) part of one's portfolio- but buying them is gambling and speculating and not investing.

People who are bullish on Bitcoin (and other coins) usually like them for two reasons 1) they think of them as a "store of value" somewhat like gold and 2) they may supplement or replace traditional government-run paper currencies.

Bitcoin as a "store of value" like gold has some merit. Bitcoin has been referred to as "digital gold" and "millennial gold." One bullish argument is that there is a fixed amount of Bitcoin (21 million tokens) that can be mined per its charter. The supply is limited, and the demand can keep growing, so the price may continue to rise. While it is true that for Bitcoin the supply will likely be limited, there are suddenly hundreds of other cryptocurrencies so the supply of crypto in general is certainly not limited. There are currently more than fifteen "coins" that are valued at over $10 billion each. Bitcoin's total value is up to $750 billion.

Bitcoin as a replacement for traditional government paper currencies has lots of problems to overcome.

First, it is too volatile to use as a currency. Bitcoin can move 2%-5% in a day and recently dropped over 20% in a day. Bitcoin was $20K back in December, it peaked at about $63K in April, and has recently fallen back to under $40K. Few people want to accept payment in a "currency" that is this volatile.

Continued >>

Second, it is currently being taxed as an asset when people buy and sell it for a gain/loss. Would anyone really keep track of their gain or loss on every purchase they make with Bitcoin? The IRS recently announced they are taking a closer look at people who have gains in crypto that they are not reporting. Active traders in the crypto markets will find that they have a complicated tax situation on their hands and most of their gains are short-term which are taxed at a high rate.

Third, the transaction costs are currently too high and too slow to use it for small transactions.

Fourth, governments and central banks are not likely to allow digital currencies to become widespread because they would lose control of monetary policy. The U.S. just announced that they will be discussing creating a U.S. government controlled crypto (call it GovCoin) to compete with all the existing coins that are out there now.

Fifth, governments can and will regulate and ban crypto currencies if they are worried about illegal money laundering, ramsomware, tax evasion, or want to eliminate the competition for their own government crypto currencies. India and China have both recently announced regulations limiting the use of crypto in their countries.

Sixth, some people are turning against cryptocurrencies because of the tremendous amount of electric power they use to mine and use them. The environmental impact is large and negative and growing. This is the reason Elon Musk recently changed his mind about allowing Tesla to accept Bitcoin as payment for buying cars. Crypto is not "green."

Our conclusion is that we recommend staying away from buying cryptocurrencies like Bitcoin. If you want to speculate/gamble with a very small part of your money for some fun that is up to you. We think there is currently a greed-induced frenzy that is feeding the buying of these coins and creation of new coins, as people have a "fear of missing out" on a booming trend. It feels like a bubble.

> "Cryptocurrencies – stay away from them. It's a mirage."
>
> —Warren Buffett

We believe that most of the "coins" will turn out to be worth very close to zero, and that the intrinsic value of most (or all) of them is zero. There are hundreds of them now, and perhaps there is a chance that one or two or three of them could survive as a store of value or alternative currency. We have no idea what price those survivors or winners will trade at a year or two from now, and neither does anyone else. We prefer to stick with traditional investments that pay us to own them, can be valued using proven methods and have good long-term expected returns.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

CHERRY TREE WEALTH MANAGEMENT, LLC
Keith N Tufte, CFA, MBA • ktufte@cherrytree.com • Cell (952) 465-1785 • Office (952) 253-6006

Cherry Tree
WEALTH MANAGEMENT

Legal Disclaimer: These materials do not constitute an offer or recommendation to buy or sell any securities or instruments or to participate in any particular investment or trading strategy. They are for informational purposes only. CTW gathers its data from sources it considers reliable. However, CTW makes no express or implied warranties regarding the accuracy of this information or any opinions expressed by the author and may update or change them without prior notification.