April AAII Journal Update

The April 2018 AAII Journal is Now Available Online.

Feature Article »

Are You Spending Too Little in Retirement?

by Meir Statman

While mental tools and self-control are useful when saving, in retirement, they can stop us from spending on ourselves and family.

Financial Planning »

Social Security and Medicare Can Raise Retirees' Tax Rates

by William Reichenstein and William Meyer

Higher levels of income not only affect the taxation of Social Security benefits, but can also lead to higher Medicare premiums.

Portfolio Strategies »

Rebalancing Update: 4.5% Withdrawal Rate and Rolling Periods

by Charles Rotblut, CFA

Increasing the withdrawal rate led to bigger distributions, but lower ending wealth. Altering the investing period also has an impact.

Stock Strategies »

The Traits Successful Business Visionaries Share

by Lloyd Shefsky

There are five primary types of vision business leaders have. What they are and how to monitor CEOs' progress toward their visions.

First Cut »

Charles' "Buy of the Week" EPS Revision Screen

by Charles Rotblut, CFA

Twenty S&P 1500 member stocks with P/Es below their five-year average high and rising earnings estimates.

AAII Stock Ideas »

Revisiting the Lakonishok Approach to Patient Value Investing

by AAII Staff

Price momentum requirements are included in this strategy to identify value stocks with resurgent share prices.

Investor Professor »

Bitcoin, Blockchain and Initial Coin Offerings

by Charles Rotblut, CFA

A primer on what cryptocurrencies, blockchain technology and ICOs are.

AAII Model Portfolios »

Model Shadow Stock Portfolio: Insights and a New Stock

by John Bajkowski

To realize the higher long-term returns of small-cap value stocks, some periods of short-term underperfomance have to be endured.

Departments »

Briefly Noted

Current news items of interest to individual investors.

- Future Retirees at Greater Risk of Hardship
- Workplace Retirement Plans Affect Savings Behavior
- Survey: 8% of Older Adults Are Victims of Financial Fraud
- Overconfident CEOs Buy Back More Stock

Letters

Members comment on 2018 tax updates and strategies, and funding retirement.

Editor's Note:

When I originally wrote this issue's Investor Professor column about cryptocurrencies and blockchain back in December, bitcoin was soaring toward $20,000. It has since fallen and was trading for a little under $9,000 when we sent this issue to the printer.

Though an $11,000 drop is very significant, perspective is needed. One year ago, a single bitcoin could have been purchased for about $1,000. Two years ago, it was trading for a little over $400.

Last year may go down as the year that cryptocurrencies went from being a niche asset favored by a relatively small group of believers to a full, outright bubble. While the word bubble is sometimes used too casually, I'm writing it with seriousness and sincerity. The boom in cryptocurrencies and blockchain platforms is displaying characteristics similar to past financial bubbles.

Consider the evidence. Last year's jump in prices was akin to past manias. Bitcoin, ethereum, ripple, litecoin and various other tokens all saw their values soar last year. Stock prices of companies like Overstock.com jumped after they associated themselves with blockchain. Start-up companies with little more than a business plan, a website and a white paper rapidly raised millions of dollars (sometimes hundreds of millions) through initial coin offerings (ICOs).

Cryptocurrency website Coinschedule tabulated 43 ICOs being completed in 2016 for a cumulative amount of $95.18 million. In 2017, 210 ICOs were completed for a cumulative amount of $3.88 billion—a fortyfold increase in the dollars raised. As of March 22, 2018, 142 ICOs have so far been completed year-to-date for a cumulative amount of $4.68 billion.

Promoters and believers of cryptocurrencies and blockchain platforms will be quick to rationalize why such trends are positive. They'll argue that cryptocurrencies are a viable alternative to what they like to describe as "fiat currencies" (government-sanctioned currencies). They'll point to the security advantages of blockchain. They'll even say there is a global shift occurring.

It’s not the first time we’ve seen emerging opportunities being pitched to an excited public who welcomes promoters with open wallets. Similar plotlines played out during the South Seas bubble, the Mississippi bubble, the railway mania and the dot-com bubble, to name a few. None ended well.

Even if we ignore history, we can look at what’s happening now. Millions of people already have Apple Pay, Samsung Pay or Android Pay on their smartphones. Only a small minority are using these payment methods. According to PMTS.com, just 12.8% of smartphone users have used Apple Pay, 5.1% have used Samsung Pay and 13.3% have used Android Pay at least once. Even Walmart Pay, which has enjoyed comparative success, has only a 24% penetration among smartphone users.

All of these platforms use the traditional dollar as currency, not a virtual currency that anyone with a computer and internet connection can create out of thin air. Even the smartphone app WeChat, which is very popular in China, uses the yuan for its payment system, not some token that an anonymous person or group created.

Compounding matters is the large amount of hype, smooth-talking scamsters and shell companies operating in the cryptocurrency and blockchain space. I am personally glad the U.S. Securities and Exchange Commission (SEC) is taking a closer look. I welcome their involvement and the involvement of other countries’ regulators. The wild west nature of the cryptocurrency markets—complete with theft, pump-and-dump schemes and companies built on promises with little substance behind them—is a dangerous place. The currencies and tokens may be virtual, but the losses are real.

Some of you may disagree with my viewpoint, and that’s fine. An editorial page is meant to express opinions, and when I see a problem, I’m going use my platform to call it out. While blockchain technology appears to have considerable potential, the way people and dollars are racing to it is worrisome. My biggest fear is that once the cryptocurrency bubble bursts, many novice investors will end up being disillusioned about investing altogether. Let’s hope that on this last point, I’m wrong.

Wishing you prosperity,

Charles Rotblut, CFA
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