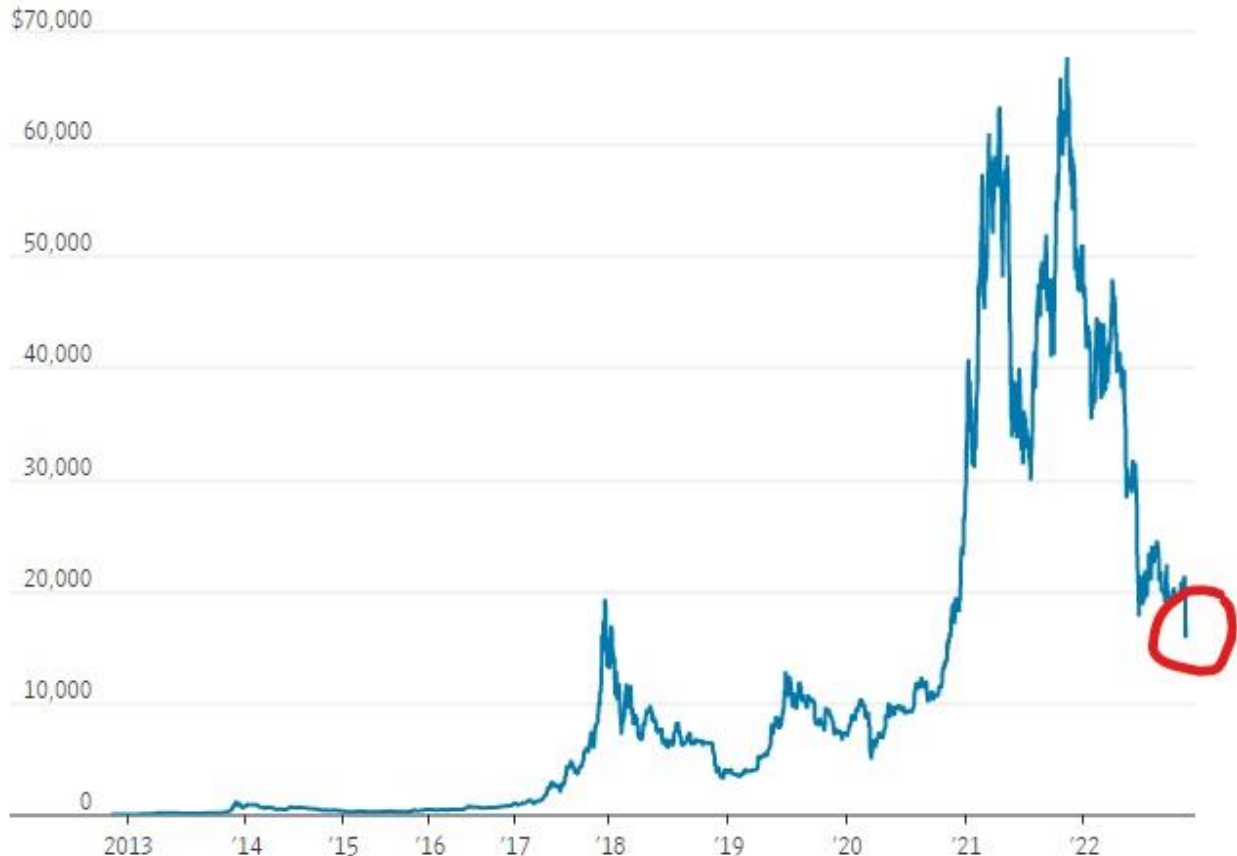


The Outlook: Nov. 10, 2022

Humility and common sense . . . or cryptocurrencies.

The election has knocked an interesting story out of the headlines, these last two days. It's also an age-old story about the markets and the investment world: age-old because the markets are just a collection of us people, in the end; and people really do not change. Here's a picture:

Bitcoin's value



Source: CoinDesk

We needn't do more than glance at that picture, without worrying about particular numbers or even the particular thing doing the cliff-dive in this chart. (Bitcoin.) It stands for the whole world of cryptocurrencies: from bitcoin to "tokens" to "exchanges" whose supposed purpose is to make a market in all kinds of cryptos, and (especially) to hold safely the crypto "savings" of the very many people and firms playing around with cryptocurrencies.

Today's problem (and would-be headline) is that a famous exchange is collapsing. It's called FTX. Like all exchanges, FTX is a kind of bank as well as a market for trading cryptos. It's a bank because it holds traders' stocks of cryptos: they are FTX's depositors. The trouble seems to be that FTX lent its depositors' crypto savings to itself, more or less, to use in betting on which cryptos might go up or down today, tomorrow or next month. It further appears that it "borrowed" its depositors' savings without asking them for

permission. Indeed. Getting wind of this, some depositors started a run on “the bank,” trying to pull out their savings; and others simply sold FTX’s favorite cryptocurrency, figuring where there’s smoke there’s fire. Of course, bank runs create fire whether it was there under the smoke or not. In the FTX story, it looks safe to say there was smoke and fire all over the place . . . and there will only be ashes after it clears.

Here’s why it’s an age-old story. In the words of one veteran investor, “There has never been anything but air behind all the cryptocurrencies and their countless variants. A stock is ownership of a real company; a bond is a debt owed by one; most commodities are things the world needs and uses to make other things. They’re all real. But behind cryptos is only one thing: the belief that whatever price you paid when you bought it, someone else will pay more when you want to sell it.”

That belief is behind all investments . . . but it’s not the only thing behind them. They also have real companies, steel mills, electricity needing copper wires, and on and on. But with the cryptos, it’s only the belief. Yup, “air.”

Here’s the last part of the age-old story. We all understand temptation; we know how it feels to need more money, to see something climbing like a rocket in price and hear about all the people making fortunes by owning the something. We all know that young people, who haven’t absorbed enough bumps, bruises and lessons in life, are always those most tempted—and we kind of “get it” when we hear about them losing their scant savings because they didn’t think hard about the whole story. But the age-old story is never only about the young. It always keeps a starring role for the most clever among us; for the most prestigious, or famous, or successful, or all the above. The list of “investors” (serious investors, meaning tens to hundreds of millions) in FTX overflows with people and firms who fit that description: some of Wall Street’s finest, so to speak, plus random victims (a kind word) like the Ontario Teachers Pension Fund. Not long ago one of the foremost Celebrity Investors of the day, Cathy Wood of the ARK group, predicted that bitcoin would eventually rise to a value of one million dollars. Having almost touched \$70,000, at the moment it’s around \$16,000.

How is it possible that such “investors” didn’t dig for facts and think hard before investing in air? Here’s Outlook’s answer. “Because FTX (and its many cousins) rose, and rose, and rose some more . . . even with the sporadic cliff-dives which came between, and never lasted. When we are tempted, we do not think straight no matter which degrees we have or how famous we are. We’re more likely to use our clever brains to rationalize what we really want to do, namely, to get in on the killings.”

It’s an old story. Here’s an old piece of wisdom. Humility and common sense count for a great deal more than cleverness and sophistication . . . in investing and in everything else in life, pretty much. FTX and the vast crypto betting crowd are finding that out.

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