



The Connolly Financial Advisors Monthly Economic & Market Report

Being nimble in a dynamic world

Executive Summary

This is my final newsletter. While it was a worthwhile personal effort to invest my time in preparing a monthly document on the markets and the economy for interested readers, the number of paid subscribers just did not rise to the level to make this business endeavor a profitable one. So, with a bit of regret, I write this with the lasting belief that there were one or two nuggets within my words that helped make a positive difference in the investment selections and actions you may have undertaken over the past year.

The year 2017 has been a memorable one. From a markets perspective it defies logic for this seasoned investor. I began buying and selling stocks in the early 1980's. The ebbs and flows I have seen during the past 35 or so years have included some incredible changes. They have been invaluable lessons for me, an education that was self-taught and borne of a simple passion to solve the puzzles of the equity markets, and to do so profitably. While the journey has been wild, I have been fortunate enough to achieve the peace of mind that comes with doing what you are most happy with in life and to have done so profitably.

I initially planned to write a comprehensive final report that covered in detail the market and economic factors that help me form a perspective on what the future may hold. After pondering this for quite a while, I changed my mind. Why did I do so? Because, the substance of what I would have written would convey the same over-riding view that I have expressed before; we are in a dangerous and highly over-valued market, a perspective that is supported by fact and history.

You should know that if there are elements of the market or the economy that you would like me to write about and share with you directly as a part of this final letter, please know I would be happy to write to you individually thereby ensuring the content of my last newsletter meets with your expectations, even if met through one additional communication.

So, what am I going to write about that I believe is meaningful and worthy of a final sharing of the ideas that run through this mind? Clearly, it is about the Blockchain and the phenomena known as Crypto-Currencies.

I believe we are at an inflection point in history, and the substance of that perspective deserves to be the headline and the entire theme of this closing missive. I hope you enjoy it!

Tom

The Blockchain and Crypto-Currencies

I want to start this discussion by indicating that for reading ease, Bitcoin and other Crypto-Currencies will be addressed throughout this paper collectively as "Bitcoin". If I wish to make a point about individual names, I will be clear in making the distinction to distinguish features between the various tokens in the market. As to generic crypto-currencies as a class, Bitcoins or "BTCs", it is important for you to understand that there is no value from a fiat currency measure that is calculable for the digital currency class. There is no rational way to calculate a value, so you are not going to hear anything from me about fair valued, under-valued or over-valued states. The concept simply does not exist. This also means the concept of a price bubble has no place in assessing whether one wishes to be a part of this market development. Simply put, price does not matter for it is not a measure of economic substance at this time. A price for BTC represents possibilities that are open to the imagination, with a range of outcomes between zero and the sky is the limit. The real question is how adventuresome you wish to be, and your tolerance for risk. I rate myself relatively high on both measures. Why? Because I see tremendous possibilities, and the reality of today's developments is telling me that the possibilities are not dreams, they are in many instances happening right in front of us.

Embracing possibility is hard, for it is intangible and it involves imagination being applied to a world of reality, and that is where the fun lies. So, let's have some fun!

History

In 2008 and 2009, as the financial and banking world was thrown from side to side in a world of uncertainty, I recall some of the most respected people, individuals of great intellect, leaders, those that saw the world through logic that was without panic or undue fear, talking about what we needed to right the ship. Their comments were not about remedies borne from Central Banks pumping liquidity into the system, buying bad debts from banks and other financial entities, and funding government obligations to suppress interest rates. They spoke of the need for technology to emerge, to once again bring about innovation that would change the dynamics of our economies, that would ignite new growth, that would raise the standard of living for a global population, and, in their words, instill the confidence that humankind, that human curiosity, would be the engine that would bring stability, promise, optimism, economic and social growth to a wounded world. I embraced those words, not knowing what the next chapters would bring, but believing that there would be a better tomorrow that was not cobbled together with band-aids and unsustainable one-off remedies. Why were those words so memorable for me? History. History provides the backbone needed to understand and to believe, and it is history that raised those words, those ideas, to the forefront of my mind.

Assembly lines, motorized vehicles, the railroad, the internet, fracking, electricity, the steam engine, the printing press, the telephone, the computer, air travel and the airplane, are all discoveries, forms of innovation, ideas that changed the world. The Blockchain may be, in the context of making new history, the development we write about in the future that freed commerce, that connected economies throughout the world in ways that were never thought possible, that brought the unbanked population into the world of innovation and participation, that took the internet to a new level of integration in life that empowered the individual. I am betting that we are possibly at a junction that strikes fear into the mainstream, those that rely on the comfortable way of doing things, while emboldening those that are explorers and entrepreneurs with the promise of success borne from ideas that feel boundless. The next chapters in time will be driven by the Blockchain and all its implications as it joins with the Internet of Things, Artificial Intelligence, Contract Law, Foreign Exchange, Banking, Commerce, and the

fundamental engagement by people in all aspects of being connected together for progress and a better existence than we have known to date.

That is what history tell us. New ideas, birthed from existing practices and understanding, seen through a different lens, changes the path we are on. Progress and the human mind are intertwined, and that is why the global engagement around the Blockchain and the emergent forms of new means of exchange between people are being driven today by the grass roots which embrace progress as the most exciting form of life. There is a growing voice backed by empowering new technology which is changing the world, adding to history, as we try to understand the possibilities of becoming unencumbered by the myriad of middle-men and regulation that stifle economic and social growth. Are you ready for this new adventure, this new chapter? It is scary and exciting, but it is one change I do not want to miss!

Where are we today?

The headlines of the day all address the price of Bitcoin. The change in price, the bubble in valuation, the new “Tulip” phenomena. I find it amazing that the main point the media focuses on is price. Price is irrelevant. The real story is about the new businesses that are emerging, the new way to fund the development of ideas, the connection between parties that eliminates cost layers and inefficiencies by taking advantage of technology in market segments that have lagged. Think about the music industry and its early role in highlighting digital disruption of an historically profitable business. The technology and economic change brought about the Apple Store and Amazon. Distribution was turned on its ear, as was pricing, and the consumer loved it while traditional businesses hated it. The next target was video distribution, and then retail in general. How dominant is Amazon? From a service platform perspective, the Cloud has emerged as the new efficiency tool. Commerce to the consumer, and between businesses has changed dramatically in the past twenty years. What about banking and finance? Ahh, there is a slow-moving relic in this segment. But just like the wave that moved over the music, book, retail, services and other industries, it is now the time to bring efficiency and scale to the distribution of capital, to the access to capital to free up new ideas and new opportunities from the regulatory and old business practices of the past. That change is happening, and it is reflected in:

1. 1,442 Crypto-Currencies are in circulation globally

2. A market valuation of the Crypto-Currencies in the market today resides between \$400 and \$700 billion
3. New Crypto-Currency Exchanges exist that enable trading of new currency forms that did not exist five and ten years ago. These Coin/Token exchanges are trading \$50 billion a day in volume.
4. ICOs, Initial Coin Offerings, are multiplying, raising new capital for new business development. While there are scams here, just like in the stock market pink sheets, there are also new companies that will change the world, that will be great successes in the future.
5. Major institutions are now hurrying to catch-up, to develop new business teams to study and develop strategies around the Blockchain. Partnerships are emerging between new and old that attempt to spring-board existing business practices into the new pool of ideas and connection to the consumer globally.
6. Fiat currencies that were the only forms of exchange for goods and services, are slowly witnessing Bitcoin the currency as an acceptable medium of exchange. Companies and entertainment venues, merchants, can be seen to publish "We accept Bitcoin" as a means to purchase their goods and services.
7. The news headlines, every day, carry stories about Bitcoin, favorable and unfavorable, most about the price, but the mere media frenzy incites consumer interest, and following the consumer are businesses that seek to capitalize on emerging trends, and this trend may just be more than a trend. We are not talking about Pets.Com, but we are speaking about the Internet unleashed.

Where are we headed?

Regulation is key. We need regulation to protect the people of the world from the predators and profiteers that seek to take advantage of this opportunity. Yes, regulation is needed and that will become headline dominant soon. However, there is regulation that is not needed, regulation that is borne of fear by governments that want to retain control of their sovereign laws and economic controls. It is confiscatory controls, shackles on new ideas and developing technology platforms, controls that inhibit the global reach of people to interact and engage that must be diffused. This is where the real challenges are. To have leaders in our political, financial and economic structures be open to learning and understanding of what is happening. There is change taking place that is disruptive not simply to an industry, but to the entire banking infrastructure of the world, to the Central Banks of the world, to the centralized economic control that

has been possessed by those in our historic institutions. We need them to participate, to not criticize what they fear that is unknown to them, but to engage in study, in global recognition that the world of finance is now the focus of technology, that the next chapter needs them to be participants in a phenomenon that knows no borders, one which is being embraced by the global population as a means to free ideas and to fund the development of those ideas into discoveries that future history books will praise and marvel at. It is time to become a part of this next wave that the human mind has conjured up to make our world a bit better and a whole lot closer.

Should you have any questions, please feel free to email me at tjc@theconnollyfinancialadvisors.com or at tomconnolly233@yahoo.com

Wishing you all the best, as I sign-off this newsletter for the last time.

Thomas J Connolly