



Fee Only Financial Planning & Investment Management

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Resolute Connections

In this month's newsletter we tackle a couple of current hot topics. Billionaires Jeff Bezos, Richard Branson, and Elon Musk are all competing to put the first space tourist out of the stratosphere - *Investing in Space* takes a look at this nascent industry as an investment opportunity, or not.

Bitcoin "Investments" concerns the buzz in the investment world about cryptocurrencies, such as Bitcoin, and considers two of the major cryptocurrency questions: is it an investment, or even a real medium of exchange?

Inflation is also a major topic of conversation in the news these days - *The Cost of Living, Then and Now* is a quick blurb about the insidious effect inflation can have on one's purchasing power. And *Pricey Stock Values Here and Abroad* briefly compares the value of the U.S. stock market with international markets, which might give some indication where investment dollars should be headed.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website,

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Investing in Space

Space is the final frontier. Our military now has a space force. We are about to get a full report from the government on what it knows about UFOs. Space is in the news,

from space tourism to the long-shot prediction by Elon Musk that humans will soon colonize Mars.

But is space a growth industry worth investing in?

For now, the answer is probably not, but we are getting close to the time when ordinary tourists will venture beyond our atmosphere. The major players in the space tourism market haven't yet proven that they can safely deliver a space experience to their passengers, though Jeff Bezos' Blue Origin is expected to launch its first crewed flight when its new Shepard rocket launches on July 20. Virgin Galactic, a part of Richard Branson's Virgin Group, plans four test flights of its SpaceShipTwo system before it attempts to begin commercial service in 2022. The first full revenue flight, on which the Italian government has booked members of the Italian Air Force at \$500,000 per seat, will fly later this year. Elon Musk's SpaceX, meanwhile, is focusing on a different market, launching Starlink satellites that are expected to provide internet service to earthbound consumers. So far, the company has launched 1,500 interconnected orbiters.

The economics of these ventures don't look promising. SpaceX is selling Starlink internet packages for \$99 a month, but these are preorders that are fully-refundable. It is going to take a lot of \$99 orders to pay for just the launches that have taken place so far. Meanwhile, competitor Iridium Communications already has 66 low-Earth orbiting satellites which are providing voice and data connectivity at all locations that SpaceX plans to serve.

Virgin Galactic recently reported a loss of \$55.9 million in the first quarter of the year, after losing \$59.5 million in the last quarter of 2020, and losing \$63.6 million in the quarter before that. Its upcoming flight will generate just \$2 million, which means the company would have to book at least 35-40 flights a year to break even—and one has to wonder how big a market there is for tourists waiting in line to pay up to \$500,000 for a trip that would barely graze the top edge of the earth's atmosphere.

A more plausible business model is Aerojet Rocketdyne's; the company's Space Launch System is paid for via aerospace and defense contracts, rather than upscale tourists looking for a thrill. Another defense contractor, Northrup Grumman, focuses

on a Mission Extension Vehicle initiative, which refuels satellites in space and returns them to operational status. Other ventures look more questionable. Nokia Corp. has landed a contract to establish a 4G cellular network on the moon, should NASA eventually find a way to colonize it.

Meanwhile, competition is on the way. A rocket builder called Astra, housed in the former U.S. Naval Air Station Alameda, CA, has already launched its 40-foot Electron rocket into space, and has plans to establish rockets in orbit next year. The company anticipates charging \$2.5 million per launch, carrying communication satellite payloads up to 300 kilograms into low-Earth orbit. The company is going public through acquisition by a special purpose acquisition company, but is not currently trading on any exchange.

Bitcoin “Investments”

There’s a lot of buzz in the investment world about Bitcoin—and cryptocurrencies generally. Are they investments? Are they a real medium of exchange? Some of this interest undoubtedly comes from the fact that, in 2009, Bitcoins were selling for eight cents a coin. At the peak earlier this year, one of those coins was trading at \$65,000.

In fact, Bitcoins are created—literally—out of thin air and stored on computer networks called blockchains. According to data from CoinMarketCap, they represent one of more than 7,800 of these mysterious money systems known as “altcoins.” That doesn’t count BitConnect, which was at one time one of the top 20 cryptocurrencies, but was later exposed as a Ponzi scheme fraud. It does, however, count some parody cryptos that were designed as a joke. Facebook is even proposing its own new currency, once called Libra, now renamed ‘Diem.’

People who buy and sell these interesting fabrications store them either in password-protected digital “wallets” on their computers, or they hold them in the crypto equivalent of trading platforms. Both require courage. If you were to forget the password (known in crypto-circles as the “key”) to your “wallet,” the Bitcoin value is locked away forever. Indeed, by some reliable estimates, 3.7 million coins (roughly 20% of the total supply) will never be retrieved by their former owners or anyone else.

In one famous case, a man discarded his computer's hard drive, and then remembered that he had 7,500 Bitcoins stored on it—which are now gone forever. In other cases, the owner passed away and the key passed with him. The 30-year old founder of Canadian cryptocurrency exchange QadrigaCX died unexpectedly, taking to his grave the private keys to around \$190 million worth of various cryptocurrencies.

The crypto-based trading platforms, meanwhile, are not uncommonly hacked; in one incident last September, a Singapore-based exchange called KuCoin reported that crypto coins valued at over \$280 million were siphoned out of various investor wallets. Since the currency is anonymous, there is no mechanism for retrieval or redress. In just the last couple of years, hackers managed to penetrate exchanges called Altsbit in Italy, Upbit in South Korea, VinDAX in Vietnam, Bitpoint, GateHub, Binance, DragonEx, Bithumb, CoinBene, Coinbin, Coinmama and Cryptopia.

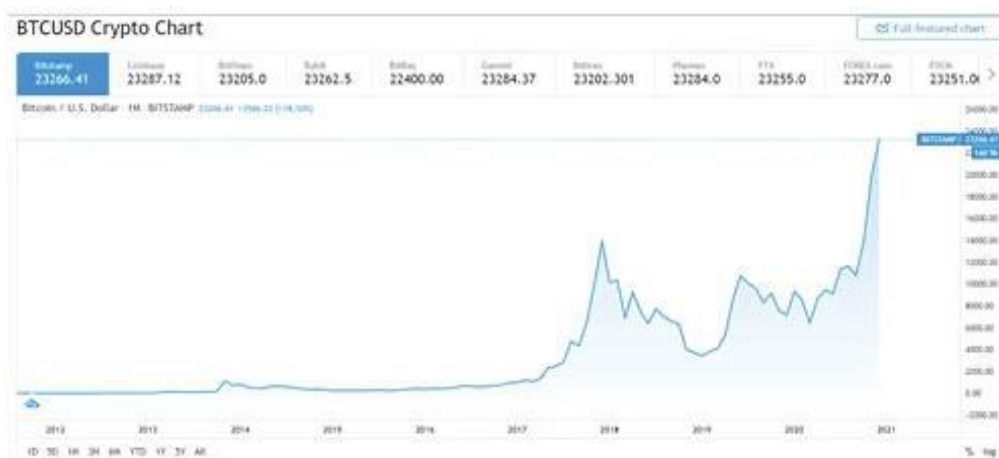
Courage is also required to entrust your retirement dollars to Bitcoin as an investment, considering its massive price swings. The virtual coins appreciated 1,318% in 2017, then fell 72.6% in 2018, before gaining 87.2% and 302.8% in 2019 and 2020. Recently, Bitcoin values dropped 20% over a two-day period, falling from \$65,000 per coin down to around \$50,000. Owners of Ethereum, another prominent altcoin, lost \$400 billion over the same two-day period in May. This is roughly 10,000 times as much volatility as one would experience trading in global currencies backed by actual governments.

There is one other issue that has caused environmentally-conscious investors to avoid the crypto market; Bitcoin tokens are “mined” by specialized computers which, in aggregate, use up a tremendous amount of energy. How much? By one estimate, these Bitcoin miners, collectively, consume somewhere around as much energy as used by the entire nations of Jordan or Sri Lanka, and the energy spent on updating and upkeeping Bitcoin ledgers at all the different nodes around the globe is enough to fuel Luxembourg.

Recently, Tesla founder Elon Musk said that he would accept Bitcoin payments for the firm's automobiles, only to backtrack due (he said) to the environmental issues around the currency. But another concern may have been that the company would

not have been able to book Bitcoin-related sales as profits; the crypto payments would have had to count as intangible assets, which would have blown a hole in Tesla's financial balance sheet.

Finally, any Bitcoin investor would have to consider a few additional issues. First, as you look at the Bitcoin price table (see chart), ask yourself if it's wise to buy at the top of a very high price peak. And second, remember the greater fool theory. The cryptocurrencies only have value as long as you're sure somebody will come along and pay you more for them.



Boring investments like stocks and bonds have tangible value backing them, while dollars and other national currencies are guaranteed by large political entities who have the power to tax their citizens. The underlying value of bits of electricity in a digital "wallet" have no tangible value other than what people decide to give them. Will there come a time when they decide that these little bits of electricity are worth nothing at all?

The Cost of Living, Then and Now

Inflation is in the news again, thanks to a recent jump in the Consumer Price Index. The Bureau of Labor Statistics has calculated that the price of a basket of goods and services rose 5% on an annualized basis in May, the largest increase since August of

2008. The inflation rate was 4.2% in April—which, too, was well above the Federal Reserve Board’s target of 2% a year.

Basically, that means that all of us have lost purchasing power in the last two months, albeit incrementally. But inflation’s real damage happens over the long haul, as the value of that dollar in your pocket slowly, invisibly erodes to a point that would be impossible to imagine without looking at historical price shifts. Consider that in 1950, the average home could be purchased for \$7,354. A brand-new Volkswagen Beetle was selling for \$1,280, and tuition at the Ivy League University of Pennsylvania was \$600. You could buy a cup of coffee for a nickel, and a gallon of gas cost 27 cents. A loaf of bread would set you back 19 cents, first-class postage stamps cost 3 cents, and you could buy a McDonald’s hamburger for 15 cents, while ten cents more would get you either fries or a soda. The average movie ticket cost about 40 cents, a dime got you a ride on the New York City subway and bleacher tickets to the 1950 Major League Baseball All-Star game cost \$1.

What kind of insane inflation rate produced such an amazing (and depressing) erosion in the value of that 1950s dollar? The inflation rate between 1950 and today was 3.46% a year.

Pricey Stock Values Here and Abroad

You probably know that the U.S. stock market has been delivering the highest returns among all developed nations, not just in the last couple of years but over the most recent ten years. But that also means that U.S. stocks have become much more expensive relative to those of other nations.

How much more? One of the most common measures of stock valuation is the price/earnings (P/E) ratio, which is the simple calculation of the overall price of all of a company’s stock shares divided by the total earnings of that company. The earnings calculations can be tricky, (for example, do you take last year’s earnings, or the forecasted earnings for the coming year?) but the important thing here is that the calculation be consistent across nations.

As of December 31, before this year's runup in stock prices, the P/E ratio of large U.S. stocks in aggregate, using trailing earnings, was 38.02, which is much higher than historical averages. The stock market in India was even more expensive, with a P/E of 38.45. Australia's P/E was the highest among developed nations, with a P/E of 43.76, nudging out France (40.81) and Canada (38.12).

That basically means that the U.S. is not alone in having historically high stock valuations. But not all countries are quite so overvalued; the P/E of the United Kingdom's large cap stocks was (17.55), Japan's stock P/E was (22.53), China's was (16.39), Germany's was (27.04) and Russia's was (12.19.) All can be bought at relative bargain prices.

Another way to measure stock valuations is the dividend yield. The U.S. large cap companies paid an aggregate (and meager) dividend yield of 1.53% to their shareholders last year, which is lower than all other major nations except India (1.14%.) Companies in Japan (1.89%), France (1.98%), China (2.02%), Australia (2.84%), Germany (2.55%), Spain (2.92%), Canada (2.93%) and the UK (3.77%) are all more generous with their shareholders.

Source:

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