SEVEN SUMMITS CAPITAL

Blockchain, Cryptocurrencies, Metaverse, NFT's......A New Reality That is Closer Than You Think

Curt R. Stauffer
November 16, 2021

Subscribe

At this point, most everyone has at least heard of Bitcoin. Likewise, some of you may recognize Ethereum, Shiba Inu, and Dogecoin. However, when you first attempt to understand what is happening behind all of the hype associated with this crypto's trading price or that crypto, you immediately encounter very confusing and unfamiliar terminology. It is easy to miss the important technological leap that underlies cryptocurrencies because of the silly memes, the mysterious beginnings of Bitcoin, and the precocious personalities who have become crypto evangelicals. Furthermore, the crazy over-reported considerable gains in the price of some cryptocurrencies can lead one to believe that all of this is just a big elaborate Ponzi scheme that will soon collapse and be relegated to the dust bin of history.

As an active, forward-looking investor, Seven Summits Capital cannot entirely dismiss cryptocurrencies as just another mania because most technology-related manias and bubbles are built upon a genuine paradigm shift that is underway. With cryptocurrencies, that paradigm shift is the blockchain distributed ledger technology. When applied to industries such as finance, real estate, and entertainment/media, this technology should not only reduce the transaction/access costs but should create entirely new business models and investment opportunities. These new business models and investment opportunities are channeling our efforts to understand the future impact of blockchain technology.

Some investors only see the trading opportunities presented by rampant speculation in the price of specific tokens. We are not "price traders," and thus, we will not be speculating on the price movements of Bitcoin or any other cryptocurrency. However, it is crucial for individuals who are genuinely skeptical about the speculative price of many cryptocurrencies to understand why we have such trading in the first place. Cryptocurrencies, as opposed to the underlying blockchain technology, in a decentralized blockchain are designed into the system to provide compensation for the individuals or companies that set up the computer server operations, known as "miners." The appeal of a decentralized blockchain network is that the network's computing power is spread among many independent computer server enterprises that power the network. Currently, the only way these server operators receive compensation for their investment and efforts is the system's award of digital tokens for processing the network's transactions. These tokens are not speculatively priced because owning them will at some point provide the owner with economic value in the form of dividends or equity ownership of the network. Instead, these tokens are speculatively priced and traded because the operators of the network require compensation. So, in reality, the buyers of Bitcoin who bid up the price are doing so, wittingly or unwittingly, to perpetuate the development of the Bitcoin blockchain network. Regarding how blockchain is currently developing and the impending regulation of cryptocurrencies, it seems very unlikely that Bitcoin or any other decentralized digital token will be widely adopted as an alternative to traditional fiat currency such as the U.S. Dollar or Euro. It is more likely, from what we see today, that some digital tokens such as Bitcoin evolve into speculatively priced/traded digital assets seen as a "store of value" like how precious metals, fine art, or vintage automobiles and wine are seen as an alternative store of value.

We are very early in our research on opportunities to invest in companies that manage the blockchain networks, the "miners," or companies that leverage the blockchain networks to open new market opportunities. The risk right now with investing in companies identified with cryptocurrency is that they will, unfortunately, be positively correlated with the price of the primary digital tokens. For this reason, investing in blockchain technology will require a discipline to look through the noise of cryptocurrency price volatility to the underlying businesses that are being developed around the technology.

Blockchain networks should operate as more dynamic and open architecture computer networks than today’s internet from a very high level. Still, blockchain networks can provide better security than applications running on the current internet and introduce novel functionality. Something that will continue to get more and more coverage is non-fungible tokens (NFT’s). Currently, most people think of NFT’s as digital images that can be purchased with the blockchain providing proof of ownership of the authenticated original code that is the asset itself. On the surface, NFT’s appear to be akin to a market of digital collectibles, but they can be much more.

One cannot fully appreciate NFT’s without first understanding “smart contracts” and the Metaverse. Imagine a digital environment where your avatar interacts with the avatars of other people around the world. Instead of interacting for pure amusement, such as web-based gaming, an avatar’s interactions will span everything from proxy business meetings and lectures within a digitally immersive environment. With this new technology, your “digital self” can interact in social settings, purchase goods and services, and interact within a virtual reality world. Within this environment, you will be able to enjoy, share, and create using your original digital art and other digital assets that you possess, including fashion, automobiles, real estate, and virtually any other possession that we currently have in the physical world. This digital virtual environment is now being referred to as the Metaverse. Within the Metaverse, cryptocurrencies will be used as an exchange of value, and NFT’s will represent purchased goods, services, and ownership rights. In this Metaverse, not only will you be able to spend digital currency, but you will be able to earn it as well. For example, imagine you purchase an NFT representing a mountain chalet in the alps, and with that NFT comes a “smart contract” which enables you to rent out that chalet to others for a set rate of exchange. You could also buy an NFT representing original art and music, whereas a “smart contract” attached to the NFT pays you every time another person uses your digital property to create another original NFT, or the contract pays you a royalty based upon how many times the music you own fractional ownership in gets played or used in collaboration. These smart contracts will be the determinant of the financial value of your owned NFT’s.

I know that this sounds very far-fetched to many and that it is hard to fathom such a dynamic and immersive virtual reality environment. Still, blockchain technology, NFT's, and cryptocurrencies offer the building blocks for this and more over the next several years. Thus, the investment opportunity in the physical world will be to identify existing companies and emerging companies that will profit from this technology, and we will attempt to avoid those businesses that will be threatened.

We know for sure today that blockchain technology and all that follows must rely upon a network of decentralized data centers (mining operations) to process all the blockchain transactions. Today there are a few publicly traded cryptocurrency mining companies. Therefore, we will cautiously invest in the leading mining companies that are currently very astutely consolidating this emerging industry.

We felt that it was necessary to let our clients know that we strive to understand how blockchain networks will change business models and how individuals interact, spend and earn money. Therefore, what we will not be doing is directly speculating on the price of cryptocurrencies themselves. We will, however, invest in the advancement of blockchain technology and the application of such technology, which should spawn new companies and novel investment opportunities. This commentary is just our introduction to blockchain technology and how we view this nascent opportunity.

Curt R. Stauffer

President & CIO

Seven Summits Capital

Disclosure:

Advisory services are offered through CS Planning Corp., an SEC-registered investment advisor.

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities, and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation,

or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. The information and data contained herein were obtained from sources we believe to be reliable but it has not been independently verified. Past performance is no guarantee of future results. References to market indices do not represent investible securities.

By Curt R. Stauffer
November 16, 2021

Share:

Get more personal finance tips

Weekly insights delivered directly to your inbox.

Your Name

Email Address

Phone Number (optional)

Sign Me Up