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SPRING 2021

THE QUARTERLY

Opening Day



BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

Early spring is one of our favorite times of the year. After a dormant winter, the grass turns green, trees and flowers begin to bud, and we fire up the backyard grill once again.

It also marks the return of baseball. And it just so happens to be Opening Day as I write this.

Opening Day in baseball officially marks a new beginning. Last year's records don't matter. Players are back from injury. Teams are fresh, and fans are rightfully optimistic.

In a sense, we're approaching Opening Day for the U.S. economy. That has a lot to do with progress on fighting COVID. We now have three safe and effective vaccines being administered across the country. More than 150 million doses of vaccine have been given. Almost 60 million Americans have been fully vaccinated. At this rate and including natural immunity from previous infections, medical experts believe we may reach herd immunity in the next few months.

With the positive vaccination trends and warmer weather, economic growth should accelerate in the second quarter. It's possible the economy will recover all the output lost during the pandemic to reach new highs in annualized gross domestic product (GDP). That should coincide with additional job gains, largely in the areas hit hardest by the pandemic, such as hospitality. At this point, the stock market will likely place a bit more attention on the recovery in corporate profits—driven by the real economy—and a bit less on the massive fiscal and monetary stimulus that has been injected into the system.

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QUARTERLY SEMINAR UPDATE

Due to the continued uncertainty of the COVID-19 pandemic, and for the health and safety of our clients and staff, we will not host an in-person seminar this quarter. Instead, we will be doing a live webinar presentation on **Thursday, May 13, at noon**, so you can join us from the comfort of your home or office. We will send the webinar invitation via email soon and hope you are able to join us. If you are unable to tune in on May 13, we will email the recorded presentation afterward. Please be safe, and we look forward to seeing you all soon.



CWP is a Corporate Member of the National Association of Personal Financial Advisors (NAPFA). If you'd like more information about NAPFA, visit their website at napfa.org.

There's a lot to be optimistic about, but, as always, there are risks. The stock market typically leads the real economy by a couple of quarters, so it's likely a lot of this good news is already priced in. For broad stock indexes to stay at their current levels, interest rates need to remain low and/or the anticipated strong rebound in corporate earnings must materialize. There is a risk of elevated inflation if Congress and the Fed don't act in a timely manner to turn off the stimulus spigot when appropriate. Rising long-term interest rates, which in this context signal strength in the economic recovery, put downward pressure on bond prices. And despite the good news on vaccinations, a race to herd immunity remains as new virus variants have recently caused infections to increase again.

We continue to monitor the environment, and as always, we'll adjust portfolios as necessary. For now, we have a modest tilt toward cyclicity and a modest tilt away from fixed income.

In the meantime ... "Let's Go Royals!"



TAKE NOTE!

Our office will be closed on the following date:



MONDAY, MAY 31
Memorial Day

Bitcoin Back in the Spotlight



BY JAMES D. KAAD, CIMA®
Portfolio Analyst

Longtime readers with very astute memories might recall that I wrote a couple of articles concerning cryptocurrencies back in 2017 when bitcoin (BTC) reached \$19K. My conclusion then was that cryptocurrencies were too volatile to be of much use as a currency and that this volatility (as well as regulatory risk) made them a poor investment asset class. Four years later, with bitcoin still in the headlines, we are revisiting the digital asset to see how much, if anything, has changed.

The first change that must be addressed is the elephant in the room. A single bitcoin at the time of writing this is worth over \$54,000. Last year was a banner one for BTC—it saw a 300% price increase, in comparison to the S&P 500's 18.4% total return (price return and dividend income). This sudden expansion of BTC's price was brought on in part by the COVID-19 pandemic and the search for a stable store of value or a "safe haven" asset class. Many investors viewed BTC as "digital gold," and this renewed interest in BTC pushed its price past prior highs in December 2020. Then the speculators piled on once again, this time fueled with highly accommodative fiscal and monetary policies to provide ample cash (fiscal stimulus) and cheap credit (low interest rates) for investment.

BTC Historical Price Since 2016



Data courtesy of Finance.Yahoo.com.

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While this change in price is a staggering difference from 2017, far more important to the question of whether BTC deserves consideration for investment is our increasing understanding of bitcoin and an acceptance as a genuine asset by prominent investors. This acceptance is mainly due to a unique pricing model for cryptocurrencies developed by a Dutch institutional investor operating under the pseudonym @PlanB called Stock-to-Flow (S2F). The S2F model shifts price to a function of the crypto's consistently decreasing amount of new issuance.

This new model has shown great promise in finding what could be considered a "fair" value for BTC, but it lacks the ability to account for changes in demand. For example, the S2F model indicated that the price for bitcoin in 2020 would be around \$24K, which it reached in 2020 and then kept going. When it comes to properly pricing bitcoin, analysts will continue to pour over the abundant data available for cryptocurrencies and our understanding of the asset class will only improve with time.

Now we return to ask if bitcoin is a reasonable investment. If excessive volatility and uncertainty are a concern, then the answer is "not yet." Bitcoin continues to suffer from large volatility swings on almost a daily basis, and is almost seven times more volatile than emerging market stocks.

Moreover, there is still the lingering question of government regulation. Bitcoin as well as cryptocurrencies are facing mounting regulation abroad, with some nations banning their use. The U.S. has yet to place any restrictions on owning or using cryptocurrencies, but the ongoing use of these assets in criminal transactions and increasing concern over shady trading practices in the unregulated marketplaces for cryptos will likely create an increasing call for regulation.

Finally, just how secure of an asset is bitcoin? While BTC's algorithmic encryption and decentralized blockchain transaction logging

make counterfeiting difficult, bitcoin digital wallets have been less secure. In 2020 alone, every month there were multiple major thefts of digital assets, each costing tens to hundreds of millions of dollars. Even more concerning was the 51% hack of Ethereum Classic (the second-largest crypto), which netted the culprits \$9 million in the crypto. This is more concerning because hacking 51% of the millions of different Ethereum Miners (the computers logging transactional data in blockchain ledgers) simultaneously was thought to be impossible. While such an attack has yet to happen for bitcoin, it should cause concern for any potential investor.

In summation, **eventually** there **may** be a place for BTC or other cryptocurrencies as an alternative asset for brief periods, but only after the issues of regulation and security have been addressed. Four years later, those issues do not appear as though they will be resolved anytime soon.





CWP WELCOMES NEW STAFF

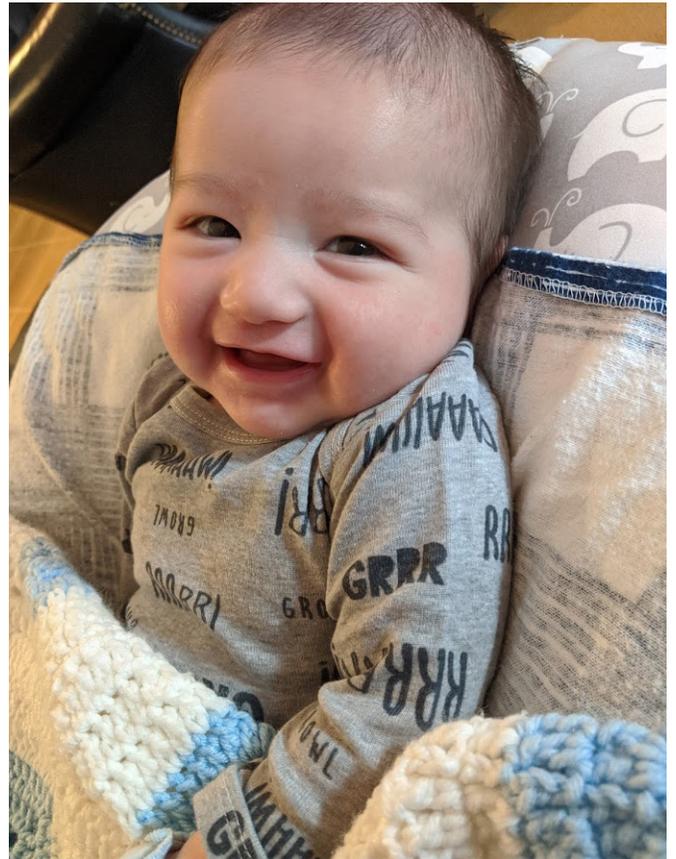
Colton Walker has joined Clayton Wealth Partners as an Associate Wealth Advisor. Colton was previously an Associate Financial Advisor at Ameriprise Financial Services. His broad experience includes investments, cash flow, retirement planning, education savings, and estate planning strategies. He works directly with the Senior Wealth Advisors to provide superior service and advice to our clients.

Colton holds a Bachelor of Science in Personal Financial Planning from Kansas State University. He is a Chartered Retirement Planning CounselorSM (CRPC[®]) professional and is pursuing the CERTIFIED FINANCIAL PLANNERTM (CFP[®]) certification.

Colton and his wife, Megan, live in Topeka, where they manage the Community Church children’s ministry. They are also foster parents. Colton loves a good steak, but hold the potatoes—he doesn’t like them. His favorite destination is Switzerland, and his favorite book is the Dale Carnegie classic, *How to Win Friends and Influence People*.

Baby Announcement!

Eric Purcell, Wealth Advisor, and his wife, Suqueen, are eager to announce the birth of their first child. Aiden Zhou made his appearance on January 14. He was a big baby, coming into this world at a healthy 9 pounds, 14 ounces! Aiden has been busy stealing the hearts of everyone he meets, while Eric and Suqueen are immensely enjoying their new family of three. Welcome to the CWP family, Aiden!



YOUR ADVISORY TEAM

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