

Smart Money: 2021 was the year of audacious speculation

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Brad Brain: "Now, I get it that there are some people will believe in meme stocks, cryptocurrencies, and NFTs. So here is the test: If these things had not gone to the moon, would you still care?" | Getty Images



I was asked to sum up 2021 in a simple way, and I chose to do it like this: 2021 was the year of audacious speculation.

In 2021 we saw the rise of meme stocks. "What the heck is a meme stock?" you may ask. A meme stock is a stock that experiences unbelievable price appreciation, not because of the fundamentals of the underlying business, but purely because the stock has captured the public's imagination.

This phenomenon is epitomized by GameStop. GameStop is a video game retailer in a world that is moving to video on demand, streaming services, and digital downloads. The business has been struggling for some time.

Despite its financial challenges, and the uncertain future of a business model that is reliant on old technology, GameStop shares went from around \$4 to a peak of \$483. Even now, despite GameStop remaining a money losing business, shares trade for about \$155, which is about a 3875% gain in a year and a half. For a money losing company with an uncertain future.

2021 was also the year that cryptocurrencies continue to fascinate some people. “What the heck is a cryptocurrency?” you may ask. Theoretically, cryptocurrencies are a new medium for exchanging value that is driven by revolutionary technology that allows for transparent and independent verification of authenticity. Realistically, cryptocurrencies are an unregulated hype machine plagued by scams, deceptions, theft, and various other mis-steps.

It’s funny. People just don’t call me out of the blue and say, “I am thinking I should make a sensible, prudent investment. How does that work?” But I routinely field calls from people asking me how they can buy Bitcoin.

Bitcoin is the leading cryptocurrency. Personally, I think its biggest appeal is not blockchain technology, or a hedge against inflation, or any of the other so-called advantages that Bitcoin proponents will espouse. I think Bitcoin’s biggest appeal is parabolic growth from \$0 to \$61,562.

Here’s a fun fact: The Bitcoin process involves computers to solve complex equations, and it takes electricity to power these computers. A lot of electricity. In fact, if Bitcoin was a country, it would rank 55th on the list of the electricity consuming nations. New Zealand uses less electricity than Bitcoin.

2021 was the year of non-fungible tokens, or NFTs. “What the heck is a NFT?” you may ask. That, my friend, is a very good question. For the purposes of this column, lets just call NFT digital art. You can “own” a piece of digital art, in other words a picture on your computer. The crazy thing is, anyone else who really likes your picture can have it too. All they have to do is right click and save. But, somehow, your picture is the original, and that means it is better than the exact, indistinguishable copy that everyone else can have for free.

Ready for this? The highest price paid for an NFT – a picture on a computer, that can be downloaded for free – is \$69 million.

Now, I get it that there are some people will believe in meme stocks, cryptocurrencies, and NFTs. So here is the test: If these things had not gone to the moon, would you still care?

If Bitcoin had not appreciated by a million per cent, would you actually care about cryptocurrencies? If GameStop had not doubled, then doubled again, then doubled again, then doubled again four more times, would you really care about the short squeeze? If someone hadn’t sold a cartoon monkey for \$300,000, would you care about a bored ape at the yacht club?

Ask yourself, are these ideas that you really, truly believe in? Or is your interest purely because of the frothy speculation that has led to stratospheric price increases, and now you are extrapolating that past performance as continuing indefinitely?

2021. The year of audacious speculation.

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