

**CROWELL WEEDON ASSET MANAGEMENT**  
**MONTECITO INVESTMENT PORTFOLIOS**

1Q 2021

Dear Fellow Investors,

What a past year it has been! This time last year COVID-19 thrust uncertainty and fear upon us all. While things aren't completely back to normal, fortunately, there is light at the end of the tunnel. Vaccination efforts have been massive, cases are dropping rapidly, and more and more areas are starting to truly reopen. Although we've enjoyed many of our "virtual reviews" we look forward to a time when we can get together in person once again. As we emerge from this past year we do believe a great reset is upon us. Where we live, how we work, how we communicate, what we do for entertainment are all being rethought. Our world is evolving and changing faster than ever. At times, it can be a bit overwhelming to try and stay up to speed with today's rapid pace of change. Even in our industry, we're in the midst of rapid change.

The COVID market sell-off of 2020 was met with a level of interest towards investing not seen in a generation. While we view this in a positive light we've also seen some new, unfamiliar, perhaps unsustainable trends emerge. We now have small retail investors rising to celebrity-like status for their entertaining "stonk" market content, personalities, and bet-the-house (YOLO) trading strategies. We actually had members of the Financial Services Committee look into market manipulation by interviewing one of these influential traders known as ["Roaring Kitty"](#) where he declared he's not an actual institutional investor, hedge fund, or cat. We've seen the floodgates open for new companies coming public. They're not using the traditional IPO channel, however, instead opting for a far less regulated process involving a reverse merger and a SPAC (special purpose acquisition company). We've seen a meteoric rise in the price of various cryptocurrencies, with Bitcoin starting to gain wide-spread adoption, being added to the balance sheet of several giant corporations. We've seen blockchain technology used to create NFTs (Non-Fungible Tokens) which are a unit of data that represents a unique digital item. This has led to an NBA video clip of a [Lebron James dunk](#) selling for \$208,000, [Jack Dorsey's first tweet](#) for \$2.9 million, and digital artist [Beeple selling his "Everydays – the first 5000 days"](#) for \$69 million.

There is no denying technology's rapid evolution. While it's easy to dismiss something new or something not easily understood as merely a fad, we believe this could be rather short-sighted. We certainly won't speculate on the price of digital items like collectible sports highlights, but we do understand the appeal. Top Shot (one of the company's creating these collectibles) said to think of them as old-school trading cards updated for the modern age. By using blockchain technology, buyers have verifiable ownership. They can keep them, display them, trade them, or sell them. Developers are building new social and gaming experiences around the technology. The sports leagues and their players can connect with fans like never before. Imagine players and fans opening "packs" together or advocating for moments to be created based on their own or other teammates' plays. The economics are superior as well. With trading cards, the leagues may receive a royalty fee upon the initial sale but no incremental revenue on secondary transactions. With Top Shot digital collectibles, the league and the players association receive revenue on both primary and secondary transactions. As Mark Cuban recently said regarding NFTs: *"Once you realize the sense of ownership is the same for a digital collectible as a physical one, you come to the realization that holding / maintaining / grading / shipping / buying / selling a physical good is a hassle. It's fast and easy with digital."*

While many of these creations are indeed new, how humans react and assign “value” to them is not. Keep in mind, in our history we’ve assigned value to salt and seashells and have seen price bubbles in tulips and Beanie Babies. New can be exciting. However, buying something just because you think the price will go higher is different than owning an investment with intrinsic value. Currency, precious metals, NFTs, sports cards, art, athletic shoes – they don’t actually produce anything. Any potential return comes from being able to sell it at a higher price. Sometimes this works out. If you buy something that becomes desirable, collectible, and scarce, it’s quite possible you’ll make money on it. However, the flip-side is also true. If you spent much of your youth collecting one of baseball’s biggest villains – Jose Canseco – good luck finding a buyer to take that collection off your hands so you can break-even (Jarrett’s unfortunate but true story).

Owning assets like a business or a property does produce something. They provide goods and services, employ people, and can have a significant impact on the world at large. They produce profit which can either be used for future growth or returned to investors via dividends. While we’re thrilled to see the renewed interest towards investing, we urge investors to make sure they’re doing just that. Study the investment philosophies of those that have proven themselves over numerous business and market cycles. While they may be considered boring, these time-tested strategies have proven themselves over and over again. Resist the temptations to treat investing like a casino. While buying and selling stocks via complex strategies can be entertaining and fun, the more you treat “investing” like being in Vegas, the closer your returns will resemble those of a gambler. For the house, they’re not gambling. Some of the most lavish hotels, nightlife, restaurants, and entertainment are built on the concept that the more you play, the more they make. Just this past week we had another example of a “sophisticated” investor, [Archegos Capital Management](#), blowing themselves up by making massively leveraged and concentrated “bets” in a handful of stocks. All it took was a negative analyst opinion on an old-school media company to start the cascade of margin calls taking this family office down. Gambling is not investing.

While there has been talk of stocks being in a bubble we believe this is largely not true. There have certainly been pockets of speculation but we believe the market is already clearing this out. The SPAC craze appears to have faded as we’re seeing rotation back to quality businesses. Over time, the market is really good at separating pretenders from contenders. Great wealth has been created by those with a vision, willing to invest a big chunk of their personal and financial resources into their ideas, and successfully turn their visions into reality. With a disciplined process focused on owning great businesses for the long-term, we believe investors can create significant amounts of wealth as well.

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio’s Mission: To provide diversified, disciplined long-term investment solutions, service and guidance to help our clients achieve, and maintain, their “Financial Independence”.***

Sincerely,

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## **Sources:**

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