LAWSON KROEKER

As we see it

APRIL 2018

"Whenever people agree with me, I always feel I must be wrong."
– Oscar Wilde

It's no secret that the U.S. stock market has enjoyed an extensive run from March 2009 to today, providing one of the longest duration advances in its history.

But what's different about this market upswing compared to what we've seen before?

What's different is where the speculative—or *fast*—money has flowed. A time-proven adage is that momentum and speculation peak as we approach the market's inevitable top—a sure sign of an aging bull market. Investors experiencing FOMO (Fear of Missing Out) often rush to the table when prices are the least compelling. In prior heated markets, the late-inning speculative money flowed into initial public offerings (IPOs) in the stock market—which offered FOMO investors the hopes of the next great opportunity. The young and up-and-coming stocks have often been the welcome medicine to cure the boredom of trading shares of existing companies. Many IPOs fail their investors and speculative money retreats as quickly as it arrives. Yet many IPOs

work. Most publicly traded companies were, by definition, once an IPO.

Another common front of speculative investors in heightened markets is private equity—which has a finite lifespan that one could argue inherently limits their volatility. New, pooled funds are raised and underlying investments are made with a clear window from which the fund's investments are exited and money is returned to the limited partners. Private equity funds are opened and closed in as little as a few years—a characteristic that naturally curtails them from perpetual speculative behavior, as funds are most difficult to raise when the investment

(over)

prospects are the bleakest.

This market has also seen the speculative frontier of the late 1990s return to the party. However, the shares of existing technology companies (especially the *FANG* shares this time around) have been one of the largest drivers through the course of the latest bull market, rather than merely the froth at the top. Interestingly, speculative investors that would once chase IPOs are now crowded into existing technology firms rather than newcomers to the market. Has technological innovation truly slowed—or at least consolidated into the hands of a select few?

But is this time, as they say, different?

The newest speculative frontier— Cryptocurrencies—have not yet proven to be a viable asset class or a widely-adopted solution as promised by its supporters. Even within the various cryptocurrencies, we most frequently hear the name Bitcoin, but as yet no single platform has reigned supreme or has proven a widespread acceptance. More challenging to understand is the extreme price volatility of cryptocurrencies in their early stages given their supporters belief in their prospects. Entering 2017, one could purchase a Bitcoin for $900. By mid-December, a fortunate trader could have sold their Bitcoins for over $19,000 each—though few would have done so given their forecasts of much brighter days to come.

As of today's writing, a Bitcoin can be purchased for $6,700. When before has such an optimistic forecast seen such volatility in its early stages? Strong IPO markets typically only head higher until the spigot of new issues abruptly closes. Private equity firms know when to fold as existing funds are redeemed and new ones are put on hold when prospects that meet their required returns are insufficient. What similar mechanism exists to reign in the volatility of cryptocurrencies? Who is left holding the bag if cryptocurrency becomes a fad and speculation ends as it so often does?

While speculative periods come and go, long-term investment in quality businesses endures. As always, we remain focused on investing rather than speculating.

450 Regency Parkway, Suite 410 • Omaha, NE 68114-3701 • p: 402.392.2606
invest@lawsonkroeker.com • www.lawsonkroeker.com