April 15, 2024

Dear Client,

"I can calculate the movement of stars, but not the madness of men."

For those who don't know the origin of this quote, we'll identify him and the circumstances in a minute but first, here's his story. Hint, he's arguably one the greatest intellectual minds in history.

In 1720 England, there was a hot investment. A rather dull operation that had been humbly plodding along for about a decade suddenly caught fire amidst a "new vision" for its' operations and a plan to channel government debt payments through it. Add in a supposed trade monopoly (in part thanks to the dominant British navy) and it sounds intriguing! Enter the public hype. Our protagonist, an early investor, added some shares on the hype and saw his investment triple in the span of a few months. Anxious to cash in, he sold all his shares in April of 1720 garnering a very handsome profit. As you can surmise, unfortunately for our protagonist, the story does not end here. Emotions around investing are a fickle thing, despite exiting happy and with a hefty bank account, our protagonist sees colleagues who stayed in continuing to get rich as the price doubles again over the next couple of months. Call it an early example of the condition now known as FOMO, for "fear of missing out." By June of 1720 he decides to buy back for twice the sale price he had received in April. You read that right, having sold for the proverbial $1, he started buying back at more than $2. Roughly 85 years after the infamous Dutch Tulip Bulb Bubble, history was watching with a smirk, and it won't take long to repeat. You likely see where this is going, a new bubble burst and in just three months by October of 1720, the price of this hot investment cratered back to where it was at the start of the year and our dear protagonist was broke.

This is the story of the South Sea Company, well known among financial and economic historians. And who is our protagonist? None other than the father of calculus and the man who first defined the laws of gravity with equations that still pilot spacecraft today, Sir Isaac Newton. There are many lessons to draw from this story, not the least of which is the forces that plague investors today are not new and can get the better of even the most brilliant mind. How do you combat these forces? With a plan based on sound principles and a disciplined process – take out the emotions. The "madness of men" indeed.

Other than being a fascinating story, the South Sea Company, and the Dutch Tulip Bulb frenzy before it, reminds us of the perils of hype, and recently hype has been abounding – artificial intelligence and the Magnificent Seven we've discussed in past letters, and now re-entering the fray is bitcoin. As for the first two, using Nvidia as a proxy for AI, it appears to have levelled off after a meteoric assent and within the Magnificent Seven, the once darling Tesla has fallen on hard times dropping out of the S&P 500 top 10 (it's now twelfth). But in the big picture, they're back to plodding along with the market.

Which brings us to bitcoin. We haven't commented on it recently so, with the backdrop of Sir Isaac's story, let's take a look. On January 10, 2024, the SEC approved bitcoin ETFs garnering quite a buzz among the bitcoin faithful. This was also big news for casual investors because it eliminated the high barrier to bitcoin ownership to a simple trade through a broker, now you can "dip your toe" and see what transpires. But the question remains - should it be in your portfolio? Despite bitcoin's dramatic rise starting in 2023 following the November 2022 collapse of the FTX crypto exchange, we are skeptical. At the end of the day, it's back to its' November 2021 peak after a tumultuous ride. That's not to say it won't continue to rise, there's plenty of speculation, but nobody knows. As we commented in our letter back in July 2021 just before this peak, bitcoin was touted as both a "hedge against inflation" and a "store of value." Let's see how those played out. Pictures say a thousand words so attached are five price charts:

1. South Sea Company from December 1718 through December 1721 annotated with Sir Isaac's experience. Take note of the shape of this chart.
2. Bitcoin Price Chart #1, August 2020 through May 2021. Look familiar? There are a few more bumps but looks a lot like South Sea to us, buyer beware!
3. Bitcoin Price Chart #2, August 2020 through December 2022. Let's be fair and extend our first chart. Those holding through the first "bubble" would have been rewarded. Temporarily. Take note of the November 2021 peak through December 2022. Looks like "the madness of men."
4. Bitcoin Price Chart #3, December 2022 through March 2024. Recovery and approval of bitcoin ETFs. An uncanny resemblance to South Sea from December 1718 to July 1720!
5. Bitcoin Price Chart #4, August 2020 through March 2024. We'll pull the whole time period together so you can see the big picture. Draw your own conclusions.

As for the claims of bitcoin being an "inflation hedge," inflation peaked in June 2022 at 9.01% while bitcoin fell 37% that month amidst a 56% drop for the quarter. Not much of a hedge. As a "store of value," like we said, it's value today is roughly the same as November 2021. When it was needed in 2022 while stocks and bonds were both experiencing declines, it was not there (see the right tail of chart #2). Again, draw your own conclusions.

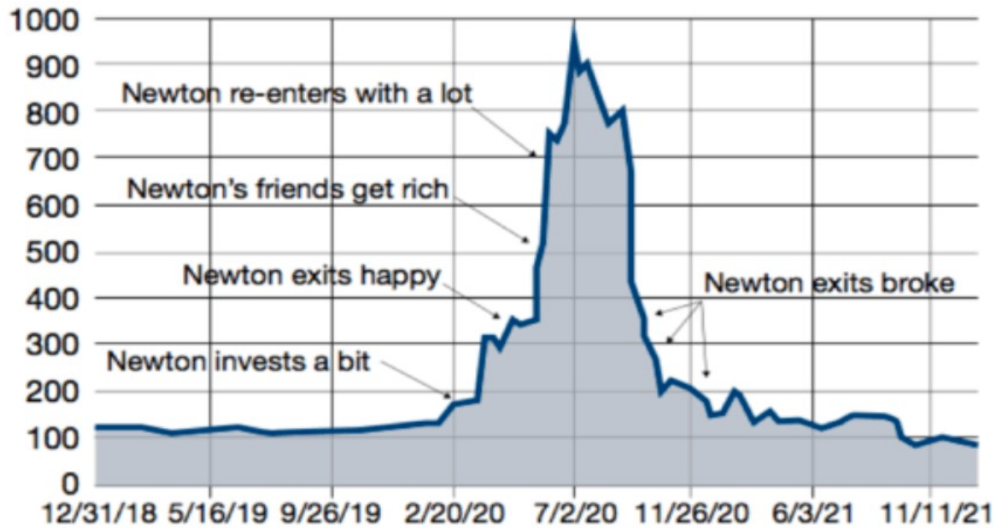
We are not equating the economics of bitcoin to what, in hindsight and reflection, was the highly flawed structure of the South Sea Company. Bitcoin is a new creation and cannot be evaluated using traditional metrics. The underlying technology of crypto, what is called the blockchain, has potential far beyond currency plus bitcoin and crypto are unique in that they have a political element. Proponents tend to believe fiat currencies and the Fed system are flawed and we need a bitcoin-like system to fix them. Politics, the ultimate "madness of men," who knows where it's going?

We are not prepared to make crypto part of our portfolios. We rely on data and the data is still not clear, look at the "inflation hedge" and "store of value" arguments. That plus the cost to own these new ETFs is yet to be settled. These may change one day but we still believe in assets that have expected return rather than being dependent on a buyer willing to pay more due to hype or political leanings. We hope we're right, but we won't speculate with the assets our clients have entrusted to our care.

To end on the mundane, it's that time of year for our annual regulatory disclosures. We are required to disclose whether there have been any material changes made to our Form ADV, our registration with the Security and Exchange Commission, since our last Annual Amendment filing (March 15, 2023). There have not been any material changes and a copy of our most recently filed ADV remains available on our website along with our Form CRS and Privacy Notice at https://www.pinneyandscofield.com/resources. If you would like a copy on paper, please call or email us and we will be glad to send it to you.

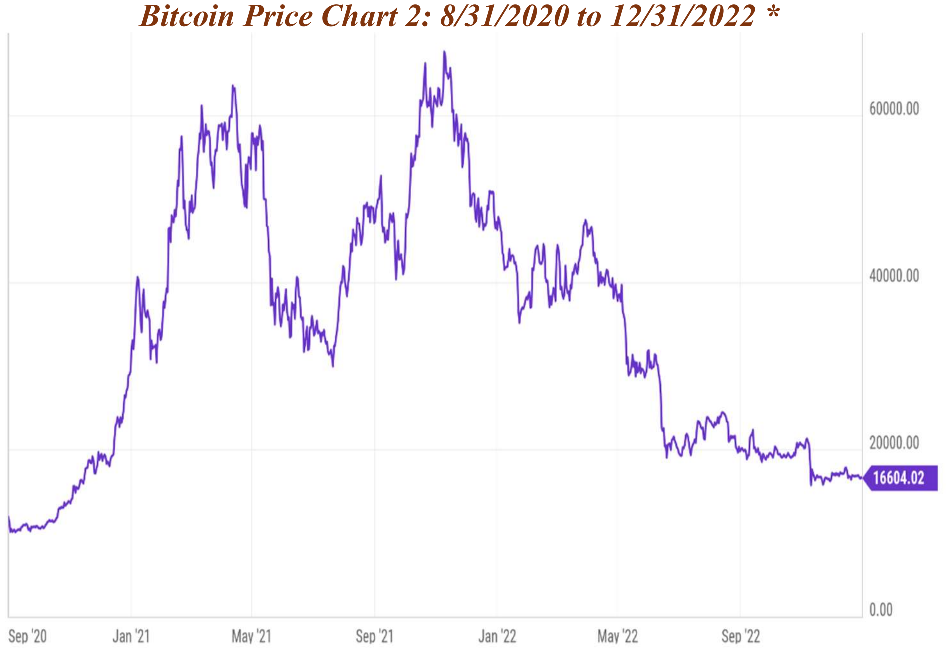
John, Richard, Mary, and Ryan

*South Sea Company Stock: December 1718 to December 1721 **



*Bitcoin Price Chart 1: 8/31/2020 to 5/31/2021 **

*Bitcoin Price Chart 2: 8/31/2020 to 12/31/2022 **



*Bitcoin Price Chart 3: 12/31/2022 to 3/31/2024 **

*Bitcoin Price Chart 4: 8/31/2020 to 3/31/2024 **

* Chart data sources:

- South Sea Company: *The Cautionary Tale of Isaac Newton and the South Sea Market Bubble* by Josh, blockchain reporter 3/5/2023, https://blockchainreporter.net/the-cautionary-tale-of-isaac-newton-and-the-south-sea-market-bubble/
- Bitcoin: A subscription application called Y-Charts