HOUSTON TRUST COMPANY

VIEWPOINTS

OCTOBER 2020, ISSUE 11

Cash

Although the word "cash" has traditionally referred to currency, over the years, the investment community has broadened the meaning of "cash and equivalents" or "cash reserves" to include a number of other highly liquid securities. Although this area of investments does not usually receive a large amount of attention from the investment management community, it is highly important and has some technical and not widely recognized aspects. The U.S. Federal Reserve's recent stimulus measures to provide liquidity facilities to a wide range of financial assets in response to COVID-19 make this a timely topic for this issue of "Viewpoints."

Currency, Bank Accounts, and CDs

Historical Background

Before the Federal Reserve was established in 1913, the United States government wavered time and again on its need to establish a centralized bank. Alexander Hamilton, father of the Federalist party, created the First Bank of the United States in 1792 to help bring order to the fledgling nation's economy and banking system. Yet, when the Federalists fell out of favor, the bank's charter was not renewed in 1811. However, a Second Bank of the United States was established shortly thereafter in 1813 in response to the War of 1812. The highly controversial Second Bank lasted until 1834, when President Jackson's aversion to

South Texas Commercial National Bank, Houston, Texas - Front. [1910-1924]. Special Collections, University of Houston Libraries. University of Houston Digital Library. Web. September 21, 2020. https://digital.lib.uh.edu/collection/p15195coll16/item/230/show/228.

centralized banking prevented its charter renewal. The United States would go another 73 years until a centralized bank was once again in play, when J. P. Morgan rallied Wall Street to save the stock market in 1907.

It was during this 73-year window that the proliferation of state banks proved especially troublesome. State banks could issue their own notes to serve as currency, and by 1860, there were nearly 8,000 sprawled across the country.[1] This made it difficult to exchange bank notes for gold or silver, and notes were often traded for less than face value. Half of the banks that opened between 1810 and 1820 failed by 1825, and this trend continued well into the 1830s.[1]

Prior to the Fed (1913), bank-issued notes often served as currency.

During the Civil War, the National Bank Act of 1863 finally created a uniform national currency and enacted strict regulations permitting only nationally chartered banks to issue bank notes. While this Act did not yet reestablish a central bank, it was hugely important for the establishment of a centralized currency. After years of negotiations, Congress finally established the Federal Reserve System to serve as the central bank of the United States in 1913.

Yet the nascent Federal Reserve did not have the strength to mitigate the risk of bank failure. While state banks could no longer issue their own notes, they continued to operate and proliferated wildly. In 1920, there were nearly 30,000 state banks across the country.[1] They were often closely tied to local agricultural economies, leaving them especially vulnerable to failure. Even as the industrial economy expanded very quickly, these banks were often unable to keep enough cash on hand to meet customer demand. In the 1920s, there was an average of 500 bank failures each year.[1] This number exploded to 744 in 1930 at the onset of the Great Depression.[2] To strengthen the financial regulatory system, the Federal Deposit Insurance Corporation ("FDIC") was established in 1933, and shortly thereafter, the Federal Reserve underwent an extensive reorganization in 1934.

Today, several other regulatory bodies exist in addition to the FDIC and the Federal Reserve. The Department of the Treasury helps to collect government revenue and design and mint U.S. Currency. This department is home to the Office of the Comptroller of the Currency (the regulator of national banks), the U.S. Mint, and the Internal Revenue Service, among others. Other regulatory bodies include the Securities and Exchange Commission ("SEC"), the Commodities Futures Trading Commission ("CFTC"), and the National Credit Union Administration ("NCUA").

FDIC Insurance

The FDIC is an independent federal agency that helps to regulate the nation's banking system and insures bank depositors from bank failure. Since its inception, the FDIC has responded to thousands of bank failures, protecting every dollar of insured deposits.

Deposits held at an FDIC member institution that are automatically covered by FDIC insurance include checking and savings accounts, money market deposit

[1] Gordon, J. S. (2008, October 10). A Short Banking History of the United States. Wall Street Journal. Retrieved from: https://www.wsj.com/articles/SB122360636585322023

[2] Wessels Living History Farm. (n.d.). Bank Failures during the 1930s Great Depression. 2003, Wessels Living History Farm, Inc. https://livinghistoryfarm.org/farminginthe30s/money_08.html#:%7E:text=After%20the%20crash%20during%20the,billion%20disappear%20through%20bank%20failures.

accounts, and certificate of deposit accounts. The insurance does not cover stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities.

The FDIC standard maximum deposit insurance amount for deposits is $250,000 per depositor, per insured financial institution, for each account ownership category.[3] The passage of the Dodd-Frank Act on July 21, 2010 permanently increased the FDIC standard maximum deposit insurance amount to $250,000 from $100,000.

Individual accounts are accounts owned by one person and titled in that person's name only. All individual accounts at the same insured bank are added together and the total is insured up to $250,000. For example, if you have a checking account and a certificate of deposit at the same insured bank, and both accounts are in one name only, the two accounts are added together and the total is insured up to $250,000. However, the FDIC insures deposits that an individual holds in one insured bank separately from any deposits that the same individual owns in another insured bank. Therefore, a frequently used strategy for large depositors is to spread their accounts over several banks, with each banking relationship under the $250,000 limit.

In addition to individual insured accounts, each person is entitled to a maximum of $250,000 coverage for deposits in joint accounts. If a couple has a joint checking account and a joint savings account at the same insured bank, each co-owner's shares of the two accounts are added together and insured up to $250,000, providing up to $500,000 in coverage for the couple's joint accounts.[4]

When an insured bank fails, the FDIC pays the banks depositors the balance of each depositor's account up to the maximum deposit insurance limit amount. It is also the FDIC's responsibility to act on behalf of the failing bank to collect and sell bank assets and pay any outstanding liabilities.

Comparison between FDIC and SIPC

To protect the interests of investors (as opposed to bank depositors), the Securities Investor Protection Corporation ("SIPC") works to recover lost assets after an investment or brokerage firm fails. While this function is similar to that of the FDIC, it is important to understand the differences between the two:[5]

	Federal Deposit Insurance Corporation (FDIC)	Securities Investor Protection Corporation (SIPC)
Define	Independent Federal Agency formed in 1933 to protect deposits against bank failures.	Nonprofit membership corporation that was created by federal statute in 1970 which insures customers of broker-dealers that are members.
Financial Institution	Bank	Brokerage/Investment Firm
Coverage Amount	Up to $250,000 per depositor, per category of amount.	Up to $500,000 per customer for all accounts at the same institution, including a maximum of $250,000 for cash.
Covered Investments	Deposit accounts, such as checking, savings, CDs, and money market accounts.	Securities that qualify under the Securities Investor Protection Act SIPA,[6] such as stocks and bonds, and money market and mutual funds held in covered brokerage institutions.
Not Covered	Accounts that contain stocks, bonds, mutual funds, life insurance, annuities, US Treasury's (bills, bonds & notes), and municipal securities.	Any assets not defined as "securities" under SIPA, such as gold and silver coins, and any securities not registered with the SEC, such as fixed annuities and certain derivatives.
Regulator	Federal Deposit Insurance Corporation	U.S. Securities and Exchange Commission

[3] FDIC. *Deposit Insurance at a Glance.* https://www.fdic.gov/deposit/deposits/brochures/deposit-insurance-at-a-glance-english.html
[4] FDIC. *Your Insured Deposits.* https://www.fdic.gov/deposit/deposits/brochures/your-insured-deposits-english.html
[5] SIPC. *FAQ.* https://www.sipc.org/for-investors/investor-faqs#questions-about-sipc-protection-for-investment-instruments.html
[6] SIPA. https://www.sipc.org/about-sipc/statute-and-rules/statute.html

Money Market Funds

Money market mutual funds, also referred to as simply money market funds ("MMFs"), were first introduced in 1971. They are designed to be low-risk, stable investments generally offering investors a rate of return ("yield") in excess of cash (or bank demand deposits), but still with the liquidity of overnight settlement. These securities are regulated by the SEC and fall into three broad categories as defined below:

- ***Government:*** Substantially all of the underlying holdings must be invested in U.S. Treasury and/or U.S. Agency ("Fannie Mae," "Ginnie Mae," "Freddie Mac") securities. Repurchase agreements,[7] if present, must only be collateralized by U.S. Treasury securities.

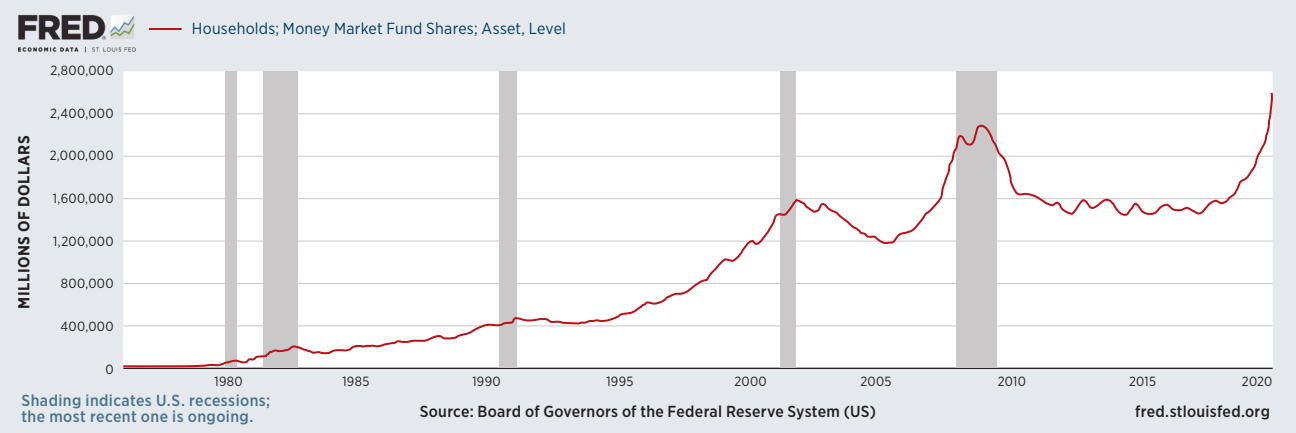
- ***Prime:*** Holdings generally consist of commercial paper, certificates of deposit, and corporate notes, as well as repurchase agreements (may or may not be collateralized by U.S. Treasuries).

- ***Municipal:*** At least 80% of the underlying holdings must be held in the form of federally tax-exempt debt securities. Municipal money market funds can further be categorized as "national" (underlying municipal bonds issued by any tax-exempt issuer) or "state specific" (underling municipal bonds issued by a specific tax-exempt state issuer). The yield from these MMFs are exempt from federal and state income tax, respectively.

Furthermore, MMFs must adhere to specific rules and regulations governed by the SEC (known as "Rule 2a-7") which place limitations on the maximum weighted average maturity (60 days) and holdings (only U.S. dollar denominated securities) of MMFs, in addition to periodic reporting and stress testing requirements.

History

MMFs were initially created to offer savers a means to earn a competitive, market-based rate of interest. Under the Banking Act of 1933, the Federal Reserve established Regulation Q which prohibited interest payments on demand deposit accounts ("checking accounts") and set a 5% limit on what banks could pay savings depositors.[8] Inflation during the decades leading up to the early 1970s was high enough to consistently exceed the cap on interest due to Regulation Q, effectively causing savers to earn a negative real, or inflation adjusted, return on their deposits. In response, Bruce Bent and Henry Brown created the first MMF, the Reserve Fund, in 1971. Since MMFs fall under SEC oversight, they are exempt from Regulation Q and therefore can offer savers a market-based interest rate not subject to the 5% threshold. Initial demand was high from savers during the 1970s, and as a result, a new asset class was born. Per the chart below published by the Federal Reserve, MMF assets held by U.S. households have grown significantly since 1971 and have reached a new all-time peak, totaling approximately $2.5 trillion, as of Q1 2020:



[7] A repurchase agreement ("repo") is a contractual agreement to buy a security at a specified price and a simultaneous agreement to sell it back at an agreed-upon future price. In effect, this is a short term (often overnight) collateralized loan. The buyer of the repo earns a yield, or carry, on the difference between the initial price paid (lower) and the agreed-upon future price (higher). The repo market is designed to be a short-term funding market for banks and large financial service intermediaries.

[8] Nelson Roberts Investment Advisors. 2018, June 12. *A Brief History of Money Market Funds*. Retrieved from: https://www.nelsonroberts.com/2018/06/12/brief-history-money-market-funds/

Money Market Reform

The Global Financial Crisis ("GFC") of 2007-2008 started a chain of events which ultimately re-shaped how MMFs operate today. Prior to this time period, substantially all MMFs operated under a "fixed NAV" structure, whereby their shares were designed to maintain a constant net asset value per share ("NAV") of $1. For decades, this fixed NAV structure worked well, and investors were confident that they could buy and redeem shares in their MMF holdings at $1, offering investors in MMFs a sense of stability regardless of the state of general market conditions.

However, during the GFC, several systemically important financial institutions became insolvent, which ultimately led to government bailouts for certain firms. One which was not bailed out was the large investment bank Lehman Brothers, which filed for U.S. bankruptcy protection in September, 2008. One of the oldest MMFs in existence, the $62 billion "Reserve Primary Fund," held approximately $785 million in Lehman Brothers' debt at the time of this bankruptcy filing. As a result, the MMF faced considerable losses on its underlying holdings, while at the same time being forced to meet large redemptions from its investor base. Ultimately, the market losses on its holdings coupled with significant investor redemptions caused the Reserve Primary Fund to "break the buck," whereby its share price fell below the once sacrosanct $1 NAV threshold. Indeed, in a report to the SEC commissioners, the staff of the SEC described these events:[9]

> *"Investors began selling prime money market funds on Friday, September 12th, ahead of Lehman Brothers' bankruptcy on Monday, September 15th. They continued to sell prime money market funds on Monday, September 15th. ...At the same time, investors began buying government money market funds, which include Treasury and government funds. During the Crisis Month (9/2/2008 to 10/7/2008), government money market fund assets increased by $409 billion (44 percent), whereas prime fund assets fell by $498 billion (24 percent)".*

As a result of these money market traumas, the SEC enacted in 2010 a series of regulatory changes governing how MMFs operate. These are in full effect today. The changes, known more commonly as "money market reform," involved a series of amendments to the SEC rule (2a-7) that governs MMFs.

The most significant changes occurred to prime (institutional class) and tax-exempt (both retail and institutional classes) MMFs, whereby the new rules mandated a floating NAV that would adjust with the changes in market value of the fund's underlying holdings. Since investors in these two types of MMFs could no longer ensure that their transactions would occur at a $1 fixed NAV, they were now subject to market risk (similar in effect to short-term bond funds rather than traditional MMFs). Other changes from MMF reform included the imposition of redemption fees and gates during times of stress (at the discretion of the MMF's board) for all types of MMFs except for Government MMFs. As a result of these regulatory changes, a large amount of assets flowed out of most non-government MMFs and into government MMFs between July 2014 (when the SEC finalized MMF reform) and October 2016 (when these new rules became enacted). According to Blackrock,[10] "Prime MMF's saw a decrease in assets of $1 trillion as a result of MMF reform, as many MMF investors moved into Government MMFs".

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[9] Wallison, Peter. 2014, March 28. *The Fed, Not the Reserve Primary Fund, 'Broke the Buck'.* Real Clear Markets.

[10] Blackrock. *U.S. Money Market Fund Reform: Assessing the Impact.* 2018, June.

SEI Government II Money Market Fund:

Prior to money market reform, Houston Trust Company invested clients' "cash" assets in two different money market funds, a tax-exempt MMF for our taxable client accounts and a government MMF for our tax-exempt client accounts. However, once money market reform was put into place, we performed a full evaluation of the various money market fund offerings from our custodian, SEI, and determined that the SEI Government II Money Market Fund was the best investment option for all of our client accounts, and it remains so today. We based this decision on the following factors:

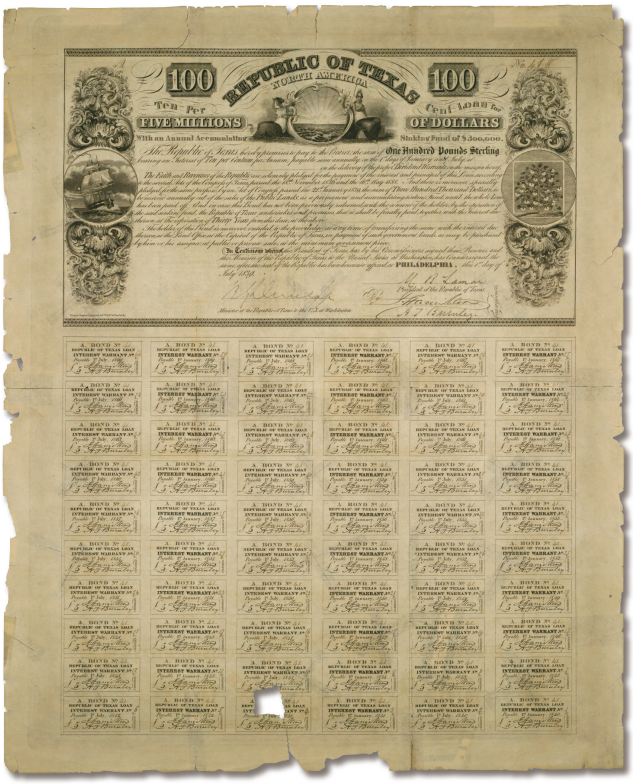
- Since this MMF is a government fund, the $1 fixed NAV structure remains in effect (post reform). Furthermore, no gates or redemption fees are present in this particular government fund.
- The underlying holdings consist solely of U.S. Treasury securities (52.5%) and U.S. Government Agency securities (47.5%). There are no potentially illiquid and risky securities, such as repos, reverse repos, or asset backed securities, present in the underlying holdings.
- SEI has proven to be a strong sponsor of its MMF's looking back to the GFC, whereby it provided financial backing to its underlying MMF's in order to ensure that none of its funds "broke the buck".

Being true fiduciaries to our clients, we regularly monitor the underlying holdings of this MMF as part of our overall risk management and due diligence process. While we do not expect a material change to the underlying quality of this MMF's holdings, our regular monitoring and evaluation of the fund's holdings would prompt us to find another high quality MMF to use as a replacement, should this ever occur.

Cash is designed to be a stable, low risk asset class and we fully believe that our clients' cash allocation should be free from any real, or perceived, credit and liquidity risks. Therefore, we have not (and never will) "reach for yield" by investing in speculative, and potentially illiquid, investments on behalf of our clients. This is especially so in the context of our clients' MMF, or cash, allocation.

Short-Term Bond Funds:

Due in part to interest rates being historically low for many years, investors have searched for higher yielding assets outside of the more traditional asset classes. One trend we have noticed over the years is the growth in short duration bond funds as a substitute for MMFs. Short duration bond funds tend to offer significantly higher yields relative to MMFs since their underlying holdings can consist of longer duration assets (typically with maturities of 1-3 years) than



Bond issued by the Republic of Texas, 1839; (https://texashistory.unt.edu/ark:/67531/metapth32897/m1/1/?q=stocks%20and%20bonds: accessed September 20, 2020), University of North Texas Libraries, *The Portal to Texas History*, https://texashistory.unt.edu; crediting Star of the Republic Museum.

MMFs (under 1-year maturities). In a yield starved world, opportunities for earning additional yield might appear attractive at first glance, but these opportunities for earning a higher yield in short-term bond funds do not come without risks. First, since short-term bond funds are not true MMFs, their NAV is not fixed at $1, or even "stable" when compared to floating NAV MMFs. On the contrary, their NAV can fluctuate quite dramatically in any given year.

Furthermore, since these funds have the ability to invest in a broader array of different underlying assets versus true MMFs, we often find a hodgepodge of less traditional, more esoteric assets, such as variable rate demand notes ("VRDNs"), collateralized mortgage obligations ("CMOs"), collateralized debt obligations ("CDOs"), and asset backed securities ("ABS") embedded in the underlying holdings of short-term bond funds. We view these holdings as being less liquid (particularly during times of extreme market volatility, such as March 2020, when investors need liquidity the most) and higher risk than a laddered portfolio of high-quality short-term individual bonds.[11] For these reasons, we caution investors who have an interest in, or who are currently using, short-term bond funds as a replacement for traditional MMFs for their cash allocation.

Cryptocurrency

A currency's success lies, in large part, in the strength of the trust placed not only in its value, but also the institutions that regulate its creation and use. The dollar was once backed by the intrinsic value of gold. When the gold standard was discontinued, we transitioned to a fiat currency (the word fiat means "by decree" in Latin.) Under this system, the dollar simply became a piece of paper that represented the value our government decreed upon it, which is further upheld by its required use to participate in basic economic activities. For a fiat currency to maintain value, the role of centralized authority is paramount. The Federal Reserve controls the number of dollars in circulation, maintaining a balance between scarcity and supply to maintain value and economic activity; the U.S. Mint creates legitimate dollars and cents that are difficult to counterfeit; and in order to participate in nearly all economic activities, you must trust a bank to hold your money, verify transactions, and maintain an accurate ledger of transactions and balances.

Yet betrayals of this trust by governments that mismanage the flow of new cash into the market and financial institutions that abuse their authority do occur, causing real and sometimes devastating effects on the value of a currency. From government bailouts to the creation of falsified accounts to boost balance sheets, where there is a centralized authority, there exists the potential for negligence, greed, or abuse of power.

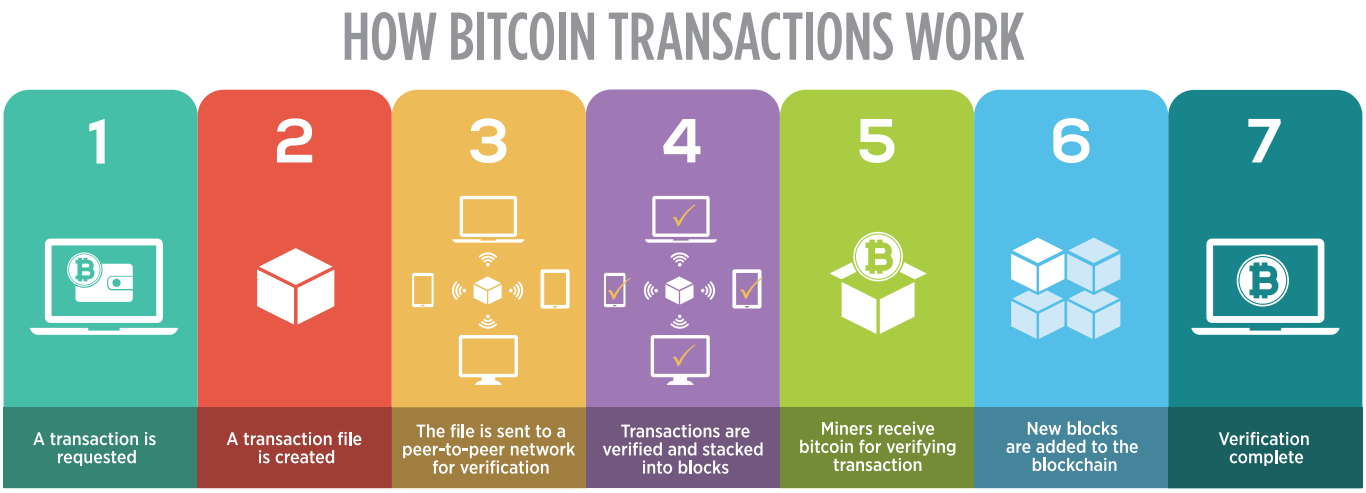
A young man uses banknotes as wallpaper during the hyperinflation crisis in the Weimar Republic, 1923. Photo: Hulton Archive | Getty Images

It is in response to this lack of trust in centralized authority that cryptocurrency was created in the aftermath of the 2008-2009 worldwide financial crisis. Bitcoin was introduced in 2009 by way of a whitepaper penned by the pseudonymous Satoshi Nakamoto. It was the first peer-to-peer digital currency that allowed online payments to be made securely without passing through a bank. At that time, digital exchanges of money were hardly a new phenomenon: wire transfers, money orders, and mobile payment services like PayPal were already integral to banking. What separated Bitcoin from these other digital payment methods was its decentralized approach to validating and processing transactions. The Bitcoin whitepaper outlined a series of protocols for the creation of a digital public ledger that prevented double-spending without the use of a financial institution.

Today, cryptocurrencies have a total market capitalization of $345 billion. Bitcoin dominates the market, making up 56.8% of all cryptocurrencies in circulation at a price of $10,625 per coin.[12] Unlike the dollar, cryptocurrency is not considered legal tender, though it may be exchanged for other currencies by willing counterparties. In the eyes of the IRS,

[11] Please refer to Issue #1 of *Viewpoints: Our Approach to Bond Investing* which takes a deeper diver into our preference for individual bonds versus bond funds.

[12] CoinMarketCap. (2020, September 4). Bitcoin price, charts, market cap, and other metrics. https://coinmarketcap.com/currencies/bitcoin/



cryptocurrency is treated as property rather than currency. Major companies such as Expedia, PayPal, Subway, and even Microsoft accept cryptocurrencies as a form of payment. Today, including Bitcoin, there are over 6,000 cryptocurrencies in circulation, such as Ethereum and Litecoin.[13]

Owning, Sending, and Receiving Bitcoin

In its simplest terms, owning Bitcoin means you have the right to access a certain Bitcoin and send it as a form of payment. Much like a bank account, Bitcoins are kept securely in a wallet: a program that allows you to hold, send, and receive Bitcoins. Each wallet has a unique private key that acts like your bank account's PIN – anyone with access to your private key has access to and control over your Bitcoin wallet. Each wallet also contains a Bitcoin address. You may think of a Bitcoin address like an email address – when someone would like to send you Bitcoin, you share your Bitcoin address in order to receive payment, and vice versa.

Bitcoin can be sent directly from wallet to wallet, purchased from a Bitcoin point of sale, or traded on an exchange. Generally speaking, there are three broad steps to sending and receiving Bitcoin:

1.) *Creating and signing the transaction file*
The first step is the creation of a transaction file with a corresponding digital signature. When you instruct your wallet to send Bitcoin to another address, it creates a secure file with all the pertinent details of the transaction, including a unique digital signature.

2.) *Broadcasting to the network for verification – mining and updating the blockchain*
Next, your wallet broadcasts this file to a community of computers to perform the transaction verification process. Each computer in this peer-to-peer network, referred to as a node, holds a copy of the blockchain, or the ledger. Each block in the chain can be thought of as a page in a ledger: each block contains a summary of the block that comes before it, thus linking the information like a chain. This makes it difficult to alter information about past transactions, preventing double-spending.

It is in this stage where Bitcoin mining takes place. The goal of mining is not merely to bring new Bitcoin into circulation, but rather to maintain a public ledger in a decentralized way. A miner earns the right to publish the next page of the ledger by verifying a transaction. Miners review transactions that have been broadcast to the network for verification. Then, they verify transactions by solving an equation with their computer. Their verified transactions are assembled into a block and added to the chain.

Miners are rewarded with a fee for their work, and this fee is paid in newly generated Bitcoin. A miner also receives all the transaction fees associated with the transactions in their block.

[13] CoinMarketCap. (2020, September 4). Bitcoin price, charts, market cap, and other metrics. https://coinmarketcap.com/currencies/bitcoin/

3.) Final confirmation and collecting funds

Once a transaction has been confirmed and added to the block, you receive a confirmation notice in your wallet. All transactions can be seen on the block explorer – a website that lets you navigate the blockchain to check the status of transactions. Typically, five to six confirmations on one transaction is considered sufficient and payment is complete.

Viability as a Currency

Money is, after all, simply an exchange of something with agreed upon value for a good or service. While cryptocurrency may provide an alternate currency solution for those with heightened privacy needs and mistrust in centralized banking authorities, its value remains largely speculative and highly volatile, undermining its potential to truly serve us well as a form of money. More specifically, due to decentralization, cryptocurrencies lack the extensive regulatory oversight that protects consumers from fraud or damages, such as the FDIC, the U.S. Mint, and the OCC. However, some activities conducted with cryptocurrency may be subject to state money transmission or anti-money laundering laws.

Reputationally, cryptocurrency has also struggled to keep a clean name. In its early days, Bitcoin was primarily used on the dark web to pay for illegal substances, because although the blockchain is public, you cannot see the names of individuals involved in a transaction or what they are paying for. Though the public's impression of the currency has since improved somewhat, incidents like the hacking and disappearance of Bitcoin held on the Mt. Gox Exchange in 2014 and the bust of the Silk Road drug ring in 2013 caused a sharp drop in value. While an owner of Bitcoin can mitigate the risk of being hacked by storing their Bitcoin offline, that comes with risk in and of itself: their hard drive may be lost or stolen. In any event, there is no protection for these unregulated exchanges, nor is any Bitcoin owner immune to its volatility.

To prevent concentrations of power, participation in cybercurrency networks must be open to anyone, provided they have access to the necessary

As the bitcoin exchange goes offline Kolin Burges, a Mt. Gox customer, holds a placard while protesting outside the headquarters of Mt. Gox and its parent company Tibanne Co. in Tokyo, Japan, on Tuesday, Feb. 25, 2014. Photographer: Kiyoshi Ota/Bloomberg via Getty Images

computational resources to solve equations to validate transactions. Computers with the most power are able to solve for transactions the fastest. However, as equitable as this approach attempts to be, without widespread participation in the maintenance of the blockchain, there are still too few "hands in the pot" to argue the system is truly decentralized. Furthermore, if the use of Bitcoin itself is not widespread, then there is little value in holding it as an asset, which devalues the reward system that is integral to keeping the ledger running.

To mirror a central authority's role in controlling the flow of money into the market, Bitcoin has a self-regulating mechanism to generate new Bitcoin at a steady pace. Because new Bitcoin are generated with each successful addition to the blockchain, the difficulty of the equation is adjusted based on how many miners are in play at any given time – the more miners there are, the more difficult it becomes to solve equations, and vice versa. When Bitcoin was established in 2009, there were 21 million Bitcoin available for mining, and approximately 18 million have been mined to date.[14]

Cryptocurrency as an Investment

Unlike stocks or bonds, but like gold, cryptocurrency does not generate a yield or dividend. However, because Bitcoin can be exchanged for the dollar and other currencies, cryptocurrencies can be traded on an exchange. Cryptocurrency exchanges are open 24/7

[14] CoinMarketCap. (2020, September 4). Bitcoin price, charts, market cap, and other metrics. https://coinmarketcap.com/currencies/bitcoin/

and have lower barriers to entry than other traditional exchanges, providing opportunities for underbanked populations to have access to trading opportunities they otherwise might not have.

In hedging against volatile equity markets, some investors have come to consider Bitcoin a "safe haven" asset comparable to gold. In 2017, the price of one Bitcoin surpassed the price of an ounce of gold for the first time in history, leading many to refer to it as "digital gold."[15] While gold and Bitcoin both hold a value independent of the S&P 500 and other stock indices, gold's value is, in large part, intrinsic, whereas Bitcoin's value remains highly speculative. An investment in gold is more closely aligned with our current fiat currency system, whereas investing in cryptocurrency is an investment in the potential of an alternative to our current system – a belief that its founding ideology and technology will, in time, produce value.

For investors seeking exposure to the price movement of Bitcoin without the hassle of buying and holding it, The Grayscale Bitcoin Trust ("GBTC") offers a solution. GBTC was founded in 2013 and is a more traditional investment vehicle that, as of January 2020, is an SEC-reporting company. Some investors may instead opt to buy shares of companies that invest in blockchain technology or supporting infrastructure, such as exchange software or chip makers, or dip their toes into "yield farming," or lending out cryptocurrencies for a fee.

Conclusion

At Houston Trust Company, we continue to monitor the ever-changing regulatory landscape and technological developments that impact financial markets. Cash, and the related investments which together comprise the term "cash equivalents," have a rich history as a very important asset class within the global financial system. While we acknowledge that cryptocurrencies have made noteworthy contributions to the financial system and their technological progress warrants continued monitoring, we do not recommend our clients invest in digital "currencies".

Gold and silver, both of which can be described as a natural extension of "currency," are two asset classes which have garnered increased attention from investors recently due, in part, to the sharp reduction in yields and fears of runaway inflation resulting from the massive interventions from central banks across the world. We are excited to explore these two asset classes in greater detail in our next edition of "Viewpoints".

[15] Zoppo, A. (2017, March 2). Bitcoin Value Surpasses Gold for First Time in Currency's History. NBC News. https://www.nbcnews.com/business/economy/bitcoin-value-surpasses-gold-first-time-currency-s-history-n728456

ABOUT THE AUTHORS

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President and CEO

David Rice Lummis is a co-founder of Houston Trust Company. He currently serves as President and CEO, chairman of the Trust Committee, and the Company's Chief Investment Officer. For seven years prior to the formation of the Houston Trust Company, he oversaw stock and bond portfolios, operating businesses, real estate, litigation support, and estate planning for a large Houston family office. He was also involved for several years as a Representative in concluding the Howard Hughes estate administration. His investment management and capital markets experience includes four years as an investment banker in corporate finance and mergers and acquisitions with Lazard in New York.

A native Houstonian, David holds a Bachelor of Arts from Princeton University and Masters of Business Administration and Masters of Accountancy degrees from Rice University.

Matt Caire

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Matt Caire joined Houston Trust Company in 2014. As Senior Vice President of Investments, he is responsible for managing the firm's fixed income investments, performing equity manager due diligence, and constructing the asset allocations for client accounts. Matt previously was a Portfolio Manager with Patriot Wealth Management, where he managed approximately $500 million in fixed income investments. Prior to that, he was a Research Associate and Bond Trader with Linscomb & Williams.

Matt holds a Bachelor of Business Administration in Marketing, Cum Laude, from Texas State University and a Masters of Finance from the Tulane University Freeman School of Business. He is also a Chartered Financial Analyst (CFA®) charterholder, a CERTIFIED FINANCIAL PLANNER™ (CFP®) professional, and a Chartered Market Technician (CMT). Matt serves as an Arbitrator for Financial Industry Regulatory Authority (FINRA), and he also teaches as an investments instructor for the CFP® Program at Rice University's Glasscock School of Continuing Studies.

Claire Johnson

Assistant Vice President, Communications and Human Resources

Claire Johnson joined Houston Trust Company in 2018. As Assistant Vice President of Communications and Human Resources, she is responsible for marketing and communications, as well as human resources administration. Prior to her current role, Claire worked in the Department of Learning and Interpretation at the Museum of Fine Arts, Houston, where she helped to oversee the docent and school tour programs.

Claire graduated cum laude from College of Charleston with a Bachelor of Arts in Communications and a Bachelor of Science in Sociology. She participated in the University of Georgia program at Oxford Grady College of Journalism and Mass Communication and was a member of the Alpha Kappa Delta honor society.