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Perspectives

Beware of the FOMO Effect

REQUISITE
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Beware of the "FOMO" Effect

As investors we are always excited about new technologies, innovation, and companies that change the world. But also, as investors, we must be extremely mindful of the behavior of crowds and the strong impact it can have on returns. Cryptocurrencies, and all things Blockchain, seem to defy investment logic when looking at 2017 returns – but not the behavior of crowds, is as illogical as ever. WE expect that more money will be flowing into these technologies in 2018 as returns for 2017 make investing in cryptocurrencies difficult to resist.

One phenomenon within cryptocurrency and blockchain that we feel confident is pushing returns higher is **FOMO** (Fear of Missing Out). Once investors feel they are getting left out, there can be a frantic type behavior that sees prices rise beyond reasonable valuations.

Therefore, it is not surprising that Coinbase, the App that allows people to buy and sell a few cryptocurrencies, was a Top 10 App for November and December (it has since fallen to #43). As investors, we must always be mindful that once FOMO sets in, expensive lessons tend to be learned by investors who stay too long or arrive too late to the party.

2017 was the year of cryptocurrency technology. We compared the 2017 returns of the largest cryptocurrency constituents. Ripple, Stellar, Ethereum, and of course Bitcoin, to three of the top performing stocks investors could have owned over the last 10 to 20 years: Apple, Amazon, Netflix.

"Expensive lessons tend to be learned by investors who stay too long or arrive too late to the party"

Company	Time Period	Annualized Return	Ending Value
Ripple	1 year	33753%	$3,375,300
Stellar	1 year	14382%	$1,438,200
Ethereum	1 year	9181%	$918,100
Bitcoin	1 year	1680%	$168,000
Apple	20 years	34%	$3,299,444
Amazon	20 years	31%	$2,358,594
Netflix	10 years	48%	$509,950
S&P 500	20 years	7.16%	$40,084

20 year calculations January 1, 1998 to December 31, 2017. Netflix calculated January 1, 1998 to December 31, 2017

Apple has over $200 billion in cash, revenues over $50 billion per quarter and has been one of the best performing large cap stocks for over two decades. Investors in Apple earned an amazing 34% average annual return per year for 20 years. Amazon and Netflix had equally impressive returns. Yet, Ripple – which few investors knew about in January – was up 33,753% for the year! Ripple returned in one year, what took Apple investors 20 years to earn. Looking at the 20- and 10- year return of Amazon and Facebook, against these cryptocurrencies, make the tech giants look like absolute laggards. Such a stratospheric return is hard to process and reinforces how incredible and rare it is.

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Innovation and the price you pay for it can be hard to reconcile. Blockchain and cryptocurrencies will continue to dominate the headlines well into 2018. Understand that FOMO is a real peril for investors when basing future returns on the meteoric rise of a new technology. That many of these cryptocurrencies generated returns in one year that took some our best companies one to two decades to create is phenomenal, yet investors looking for similar returns going forward, could have a painful ending.

Cryptocurrencies and investments tied to them are high-risk products with an unproven track record and high price volatility. They are highly speculative investments and are not suitable for most investors.

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Coinbase rankings are derived from Apple iTunes rankings. See apple.com/iTunes for more information

Cryptocurrency prices sourced from onchainfx

Information shown is as of December 31, 2017, unless otherwise noted. All data is subject to change.

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