

The Ethical Treatment of **\$**omebody Else's Money

Straight From The Horses' Mouth

SEPT 4, 2017



MoneyCulture©

The death of Bitcoin and the future of cryptocurrencies: The UTILITY SETTLEMENT COIN

So far, other than isolated situations, cryptocurrencies have not been used to facilitate commerce in the Mom and Pop World. They have been speculation vehicles that have drawn in people hypnotized by the out of this world run up in prices: \$270 to \$4700 in 8 months. Too good to be true. Sheep lured by the "Don't miss out on this" psychology have bought, and bought and bought. To what end. Short term profits, Sure. But, what's missing in the crypto world has been a legitimizing event that brings them into everyday commerce. Even the Millennial commerce of "all things tech" hasn't seen it. Those lucky speculators who bought the hype and stand to real bug bucks will say that that lack of utilization is the very reason they were attracted in the first place. I want to remind them and everyone else that you haven't made a dime (10 cents) until you SELL what you bought. I also want to remind them and everyone else that all securities have up and down swings. ALL. I hear, "Well, this time is different". That what they said about everything new from Automobiles, to dot coms, to, well, crypts. No it's not different. You only find out in hindsight.

So quietly last week comes a business event that could be the future of cryptocurrencies. The legitimization of the method that will transform it from a novelty cocktail party collectible like a stuffed bb-9E into a currency suitable for a Big Mac.

Six of the world's largest banks led by UBS and some others that have signed on are teaming up to create and accept a utility settlement coin—a new cryptocurrency. It is supposed to be used for clearing and settling transactions over blockchain technology. To be backed and promoted by Barclays, Credit Suisse, Canadian Imperial Bank of Commerce, HSBC, MUFG, and State Street, Deutsche Bank, Banco Santander, BNY Mellon and NEX

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along with UBS will use the USC to settle securities transactions- paying each other buying and selling securities without any waiting period for traditional money transfers. An instant (nearly. There has to be an acknowledgement) settlement will reducing the time and cost of settling and clearing securities transactions. Not being subject to play money speculators (Hard to imagine for Wall Street and its cronies, isn't it?) the USC will have to maintain a relatively stable price/cost. It just wouldn't work without stabilization, would it? I mean the Big

Six will play with our money, but take a multi-\$B risk with their own. Nah, not unless you're a JP Morgan London credit default swap trader.

According to the Financial Times, "the USC will actually be convertible at parity with the bank deposit in the corresponding currency, making it fully backed by cash assets at a central bank." They conclude, correctly I believe, that once the USC goes to the public most existing cryptocurrencies will not be able to compete with the spending ability just like "real" currencies.

Take it to the next natural step. What are Big Financial firms best at? Innovating derivative (read "not previously thought of") products to reap massive profits. See the USC in a commercial version, denominated in dollars, euros, pounds, whatever? I see USC debit cards, futures markets, cash back offers, rewards points, redeemable S&H green stamps, welfare checks, and ultimately—Your social security payments and 401k accounts. I mean, it's not very far removed from where we are right now digitally.

Think of what could be done with international trade deficits. If you could create acceptable currency with a (bigger) puff of smoke than it already is, why, GONE. Just like that.

We're entering the virtual world of Hiro Protagonist !

For now, look up the Bank Panic of 1873, and listen to REM's "It's the end of the world as we know it". I hope they give you some comfort. While we wait for Big Financial to take over this movement, if you own some Bitcoins, Sell them now, please. Who cares if you miss some of the run up until it crashes. "Thank you, Paine Webber" (UBS).

What do you do with short term losers? Fire your advisor?

No.

Brandes Investment Partners, did a study a few years ago of the actively-managed U.S. equity mutual funds in the Morningstar database that had beaten the S&P 500 over a 10-year period. Guess what "all of them underperformed the Index substantially during shorter periods within that decade."

In another study, this one by the *Hulbert Financial Digest* found that most investors who fired their Advisor because of short-term losses or below market return Can you say, "Buy high, sell low"? This is exactly the opposite of rational investing principles. The Hulbert study researched the "buy high/sell low advisor replacement strategy over the last 40 years would lose an opportunity cost equal to about 90% of the returns gained by the "stay and hold".

Investors should NOT switch their advisor because of a poor year or two. Look at the long term. That's NOT 3-5 years. Some analysts suggest sticking with an Advisor for 15 years, unless the reasons you hired her/him would cause you to not hire her/him now.

It's all about sales: The WILLY LOHMAN EFFECT

Ed Gjertsen II, chairman of the Financial Planning Association and vice president at Mack Investment Securities in Northfield, Ill., said people who choose to work with firms that have a sales culture need to understand that and make their judgments accordingly.

"If you walk into a car lot, you know you're in a sales process, and your mind shifts to being more aware and more defensive," he said. "When you walk into a firm and you're being led by returns, you still have to be in that mode.

You have to be aware that there are people who are selling you things that aren't in your best interest."

I think those investors who trash Advisors because they are just salespeople lose sight of the fact that in every business: lawyers, doctors, educators, pastors to name four, for instance, it's ALL about sales. Indeed, in commerce, NOTHING happens unless a sale is made. They also probably don't remember George Carlin saying there are good and bad practitioners in every job. For instance, he says, "Somewhere there is the world's worst doctor. The bad news is that tomorrow somebody has an appointment with them." Keep that in mind

Seeking Alpha guru Charlie Bello points out, "Having a few extreme charts on your wall can be a helpful reminder that there is no such thing as "can't", "won't," or "has to" in markets. The market doesn't *have to* do anything, and certainly not what you think it '*should*' do....' And that's why listening to the endless prophesies of gurus and pundits can be so dangerous. They don't know anything more about the future than you or I, which is to say they don't know anything about it at all."



DANTE'S CORNER



4 Atlanta Brokers charged with fraud.

The Securities and Exchange Commission today charged Christopher S. Laws, Jonathan D. Cooke, Danny S. Hood, and Brandon P. Long, former Atlanta-area brokers with Federal Employee Benefits Counselors with fraudulently inducing federal employees to roll over holdings from their federal Thrift Savings Plan (TSP) retirement accounts into higher-fee, variable annuity products.

The brokers allegedly misled investors concerning significant details about the recommended variable annuity investment, including the associated fees and guaranteed investment returns. The brokers allegedly fostered the misleading impression that they were in some way affiliated with or approved by the federal government. In some instances, investors were led to believe that their funds would be invested in a product that was offered, vetted, or specifically selected by the TSP. The brokers sent investors incomplete or modified transaction forms as well as written materials they devised that obscured that the investment was a privately issued variable annuity with no connection to the TSP and would be processed through a private brokerage firm with which the brokers were associated. The brokers sold approximately 200 variable annuities with a total face value of approximately \$40 million to federal employees, who used monies rolled over from their TSP accounts to fund their purchases. The brokers collectively earned approximately \$1.7 million in commissions on these sales.

Issuing a related INVESTOR ALERT, THE SEC stressed that the TSP will never contact federal employees asking them to provide sensitive personal information and does not authorize third parties to provide counseling or investment-related services.

"Be skeptical if someone offers you an investment opportunity and claims to be affiliated with the federal government," said Lori Schock, Director of the SEC's Office of Investor Education and Advocacy. **DANTE'S HEAT INDEX GIVES IT AN 8.**

DANTES CORNER CONTINUED...

SEC Announces Charges In Massive Telemarketing Boiler Room Scheme Targeting Seniors

Securities and Exchange Commission v. Powertraderspress.com, Inc., Elite Stock Research, Inc., Erik Matz, Ronald Hardy, Anthony Vassallo, Stephanie Lee, Jeffrey Chartier, Lawrence D. Isen, Robert Gleckman, Brian Heepke, Dennis J. Verderosa, Emin Cohen, Sergio Ramirez, and Ashley Antos, Defendants, and Hermann Matz, Joseph Matz, Brittney Ballestas, Melissa Kurtzke, Janine Acosta, Type A Partners, Inc., Strategic Capital Markets, Inc., Marketbyte LLC, Snap or Tap Productions, LLC, Dacona Financial LLC, TradeMastersPro.com, Inc., MyStreetResearch.com, Inc., Revolving Ventures LLC, TradeMasters Consulting, Inc., Big Little Consulting, Inc., BCBall, Inc., Gabron Transport Corp., PTP Construction Corp., Terryville Systems, Inc., MKKMMKKM, Inc., Trek Partners LLC, RKRG, INC., Price Point Consulting, Inc., DJV Enterprises, Inc., Leecorp, Inc., Soccerserge, Inc., and Antos, Inc. were allegedly involved in two Long Island-based cold calling scams that bilked more than one hundred victims out of more than \$10 million through high-pressure sales tactics and lies about penny stocks. The SEC alleges that the orchestrators of the scheme used boiler room-style call centers to make hundreds of thousands of cold calls that included the use of threatening and deceitful sales techniques to pressure victims - many of whom were senior citizens - into purchasing penny stocks. For example, as part of one such scam, a boiler room salesman allegedly claimed that the Walt Disney Company was buying into a purported media and internet company and that would cause the penny stock's price to increase substantially. During these calls, victims were allegedly harassed and threatened by sales personnel. When one victim complained about his losses, a sales representative allegedly said, "I am tired of hearing from you. Do you have any rope at home? If so tie a knot and hang yourself or get a gun and blow your head off." According to the SEC's complaint, in a typical phone call, telemarketers would direct victims to place trades and tell them how many shares to purchase and at what price. With this information about the victims' trades, the orchestrators and the boiler room sales personnel allegedly placed opposing sell orders to dump their own shares, realizing more than \$14 million in illegal proceeds while the victims lost millions of dollars, including retirement savings.

SEC investigators learned of the alleged scheme from investor complaints and used technological tools and innovative investigative approaches to build evidence – within a matter of months from receiving the complaints – against the defendants who went to great lengths to evade detection.

"These kinds of scams cause devastating harm to investors," said Stephanie Avakian, Co-Director of the SEC's Enforcement Division. "Investors must beware of the sort of conduct alleged in our complaint – things like unsolicited calls, high-pressure sales tactics, and promises that a no-name stock is going to skyrocket."

Scott W. Friestad, Associate Director of the SEC's Enforcement Division, added, "The defendants allegedly used boiler rooms and high-pressure sales tactics to swindle seniors into investing their life savings in microcap securities they were secretly manipulating for their own profit. But, through a combination of technology and innovative investigative approaches, we were able to unravel the alleged scheme and prevent further investor harm."

In a parallel action, the U.S. Attorney's Office for the Eastern District of New York announced criminal charge

DANTE GIVES IT A 10 (but as a Senior, I give it a 12 out of 10).

RETIREMENTCULTURE

TDFs#1

In last month's *Fortune Magazine*, a Vanguard study of the 401(k) plan participants it services, some 4.5 million strong found that 72% of them were invested in Target date Funds (TDFs)

Vanguard said in 2007 17% of the participants invested in TDF and that the trend upward will find 75% in 2021. They found that TDFs were most often the result of employer recommendations.

Once slammed as the ugly stepchild of the retirement investing world, the product designed for college savings years ago and now the darlings. Not all TDFs are created equal, however, Participants and other investors should look for risk choices, broad diversification, low fees and at least a 10 year track record. In stead of a common "To retirement" OR a "Through retirement" glidepath, choose, a "To AND Through" glidepath.

BUSINESS BUILDERS

ADV changes 10-1-17

The SEC has revised Form ADV, Part 1. Anyone filing an amendment on or after that date (including the annual amendment required in First quarter, 2018) will HAVE to use the new form.

On our subscription site we will detail the changes next week, but for now, here are the main points:

1. You will have to subcategorize your SMA assets in more detail. Advisers will now be required to report the approximate percentage of SMA assets, choosing from twelve broad categories
2. You will have to disclose your use of borrowings and derivatives (subject to those with \$500 million in assets).
3. Disclose custodians who have 10% + RAUM, by amount of RAUM.
4. Notice a change in Umbrella registration for multiple advisor registration.
5. Disclose "all publicly available social media platforms where the adviser has a presence for which it controls the content."
6. Provide information about the social media accounts of employees.
7. Disclose the total number of offices where investment advisory business is conducted and provide further information about the 25 largest offices, including the number of employees providing advisory services and the types of activities conducted.
8. Disclose if the CCO is employed by someone other than the adviser (or an affiliate) and to report the name and IRS employer identification number of that other person..)
9. Advisers with assets of \$1 billion or more can select from a list of ranges: \$1-10 billion; \$10-50 billion; or \$50 billion or more for balance sheet assets
- 5 Advisory Business Information
10. Provide the actual number of clients and amount of RAUM attributable to each category of clients.
11. Give the approximate amount of an adviser's total RAUM attributable to non-US clients.
12. Give the number of clients that an adviser provides advisory services to, which are not included in its RAUM;
13. Other SAM and Wrap fee disclosures on accounts.
14. Provide identifying numbers (e.g. CIK numbers) for all listed related persons.
15. Eliminate Wyoming as an SEC automatic registration.

PARTING SHOT:

The real reason that we can't have the Ten Commandments in a courthouse: You cannot post "Thou shalt not steal," "Thou shalt not commit adultery," and "Thou shalt not lie" in a building full of lawyers, judges, and politicians. It creates a hostile work environment.

Next time: MoneyCulture for Millennials, our new 501c03 non-profit, MoneyCulture, Compliance administration for \$500.