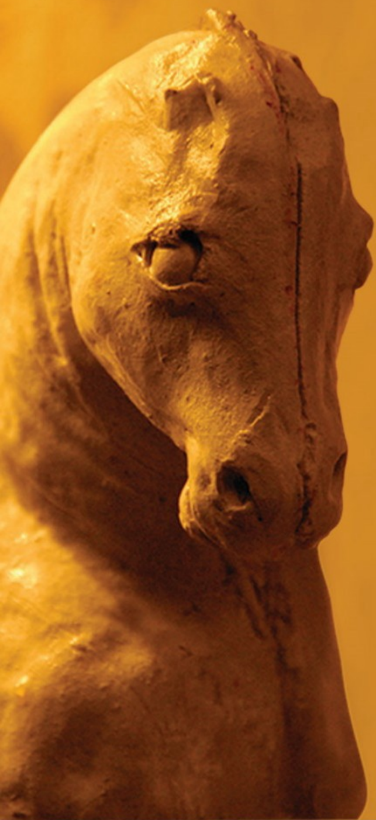

# The Equus Report

—BY BARNABY LEVIN

## Fintech 2.0

February 2, 2022

Last year in Season 1 of my new, **Plutonomix Podcast** with Laurie Kamhi, we spoke about "Fin Tech" and De-centralized Finance, considering some of the innovation going on in everything from "Digital Wallets" and "Mobile Payments," to Buy Now Pay Later Lending. We highlighted how the companies involved – by reducing cost and removing friction – are increasing accessibility across the financial industry and, in so doing, are posing a threat to some of our country's biggest banks.

We started with crypto – because that's what much of this is based on – where there are now hundreds of tokens, along with their underlying, Blockchain Networks, the largest of which is Bitcoin.

As recently as two years ago – when (as we said in our Podcast on "Bitcoin") people still scoffed at the idea – what began as mere "tokens" have evolved (in some cases) into "Currencies" or a "Means of Exchange." But like the early days of the Internet, it has inevitably attracted the interest of pensions; hedge funds; and even banks themselves, ranging from US Bank and Ally to BNY Mellon. Bitcoin has been endorsed by people like Stan Druckenmiller, Bill Miller and Paul Tudor Jones and, in a recent survey by Fidelity – while more than half of the 1,100 institutions they polled said they already had exposure – more than 75% of professional investors in Europe and Asia said they also planned to do so over the next 12 months.[1] Many of those who haven't are just waiting for people like Gary Gensler at the SEC; Janet Yellen in Treasury; and Jay Powell at the Fed to announce some sort of Regulatory guidelines – partly because they're concerned about Crypto's use as Ransomware and illegal money transfers…

As a reminder, Bitcoin was (at least in part) created in response to the 2008 Financial Crisis, which resulted in an almost irrevocable or irreconcilable distrust

[1] "The Institutional Investor Digital Assets Study," by Jack Neureuter, Fidelity Digital Assets, September 2021

of banks, here and abroad. It was around then than Bitcoin's creator (someone by the name of "Satoshi Nakamoto") proposed a novel, Peer-to-Peer payment system, based on something called a "Blockchain," that didn't require third-party confirmation – or for banks, governments and other Central Authorities to be involved in settling transactions. Simply put, the Blockchain's a database, which is stored on individual, independent computers all over the world (hence the term "De-Centralized") and each transaction is posted, chronologically and irrefutably (meaning it can't be changed, deleted or overwritten). And, where every economy has always required "Trust," the Blockchain – because it keeps track of everything without third-party intervention – has no need (anymore) for it or "faith." Every participant in the "Cryptoverse" has a unique, digital code that (so far at least) has been impossible to forge and – at least in the case of Bitcoin – has a finite number of "coins" that can ever be minted (which, in Bitcoin's case, is 21 million).

Today, there's about 19 million of the latter – and this "scarcity" creates a value that's now (more or less) based solely on Demand. Remember how we always talk about Supply & Demand, both in my EQUUS Reports and our Podcasts – and how this drives the price of everything, from stocks and bonds to real estate? Well, since the Supply of Bitcoin is Fixed – when it comes to determining "value" – the only variable, then, is Demand – and Bill Miller, in fact, has said Bitcoin may be the *only* Asset where, the higher it goes, the "less risky" it becomes because that's an indication of acceptance.[2]

In any event, all kinds of financial institutions – from Fidelity to Goldman Sachs and Morgan Stanley – have been dipping their toes in the water, mainly due to customer demand and (to some degree) fear of missing out – while Visa and Mastercard are now accepting crypto as payment.

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[2] "Bill Miller Says Bitcoin Becomes Less Risky the Higher the Price Goes," Kevin Stankiewicz, CNBC Exchange, January 8, 2021

But it's companies like Square (a.k.a. "Block"), Paypal and Coinbase who are leading the charge – not only launching platforms on which to trade or invest – but Digital Wallets to store one's tokens. And it's Block who recently announced they've been working on a Hardware Wallet they claim will allow people to "securely" store bitcoin on a physical device. At this point, there's already a dizzying array of things, like "Cash Apps," for everything – from credit cards and personal loans to mortgages and insurance – being offered at a fraction of what the big, Money Center Banks have been charging.

And, at the center of it all, is that little device we hold in the palm of our hand called a "Mobile Phone" – that now has more storage and computing power than some of the big boxes I used to sell in the early '80s for tens or (even) hundreds of thousands of dollars! Today, anyone with a Cell phone – whether here; in El Salvador; or the darkest heart of Africa – can send and receive "money" instantly; easily; and as securely as a wire, without paying exorbitant fees in the process.

Like we mentioned in our Podcast on "Inflation versus Deflation," we feel it's time that someone or something challenged the Big Banks who – despite the fact Delinquencies are at 15-year lows – have kept rates for Credit Cards unchanged in the low-to-mid teens, which hurts lower-to-middle income people the most. And (as a result) the number of people switching (especially younger people, like Gen Z) is staggering – to the point where Jamie Dimon, CEO of our country's largest bank (by Assets) is beginning to complain that "FinTech" (because of their "unfair advantages") needs greater regulation and recently committed to spend more than $12 Billion, this year alone, to beat those seeking to disrupt them.

But that may not be so easy to do – no matter how much money they throw at the problem. In the first place, Gen Z doesn't know a world without mobile banking. And – having seen older generations suffer under consumer debt – it has given them an ingrained fear of borrowing. They're wary of predatory practices and

getting hit with exorbitant interest expense, so they're gravitating toward platforms that not only let them borrow without interest, but that break down exactly what they'll owe over the life of the loan. This is what firms like Affirm, Afterpay and Klarna are pioneering through what's known as "Buy Now, Pay Later" which (according to a recent eMarketer survey) more than half of them will use to fund at least one, online purchase by the end of this year.[3]

With firms like these, the *Fintech* pays the Retailer for the User's purchase and the User, then, pays the *Fintech* back in installments – again, with no fees or interest; customized payments; and instant approval (or rejection) based on technology that looks at the person's Cash Flow, transaction history and credit usage – not just some arbitrary, "black box," Credit-Rating Service.

As I suggested, these Services will (sometimes) say "no" – but young people, I think, sometimes like it when they do so and they're told "Hey, you can't afford this!" – as long as it's based on transparent and clear guidelines. As we said in our Podcast on "Gen Z" last year, they're widely considered a Socially Conscious generation, that pushes themselves (and others) to be accountable for solving problems (like Climate Change, Income Inequality and Discrimination) and they increasingly expect their financial service providers to reflect – not only their identities and values – but to help them with their financial education and investing through open discussions, on everything from Reddit forums to YouTube videos and Discord chat rooms, so they can engage, respond and interact with one another.

It's important to note, therefore, that a survey by Ernst & Young last year found 51% of Gen Z consumers name a Fintech as their most trusted, financial brand, while only 23% named a national bank.[4] A person making a purchase will, when Checking Out,

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[3] "What Generation Z Wants from Financial Technology," by Svati Kirsten Narula, The Wall Street Journal, January 25, 2022

[4] "What Generation Z Wants from Financial Technology," by Svati Kirsten Narula, The Wall Street Journal, January 25,

be told all their options for monthly payments, with a breakdown – before they hit <Buy> -- as to how much they'll owe and when and, by getting to know and understand their Users behavior and spending habits, it gives Fintechs an opportunity to design even better tools, to help Users make better decisions going forward. So, it's curious how, in the January sell-off, the Market punished these names (without distinction) as much or more than their larger, stodgier counterparts – even those with strong Balance Sheets; growing Revenues; that are Cash Flow positive and have rising profits – at prices we haven't seen in some time.

Like we say every week in our Podcast, it's important to understand the Pros and Cons of *every* issue, so we can make Informed Decisions and increase the odds of finding the "right" answer for *us* – an answer that may be different for different people. You see, it's not who's "Right" or "Wrong" – but knowing there are NO disinterested Parties or unbiased Opinions – and that "Where You Sit Depends on Where You Stand" – the challenge to making good Decisions is to start by questioning our Assumptions and to break free of our "prejudices" – because the truth usually lies somewhere in between.

**There are always two sides to every issue, *both* of which have merit**.

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