Could Amazon Go Bankrupt? Ever?

Imagine 100 years from now that Amazon files for bankruptcy. Today, that future seems almost inconceivable given that the majority of Americans use Amazon to shop online. The company blazed the trail of online shopping, and today it is synonymous with U.S. retail.

A long time ago, Americans felt the same about Sears. Founded in 1892, Sears was a household name for generations. It transformed the consumer shopping experience with its mail-order catalog business model, and later dominated the brick-and-mortar retail scene for years.

It wasn't that long ago that Sears was one of the thirty companies that comprised the Dow Jones Industrial Average.

This past week, Sears filed for Chapter 11 bankruptcy. The company was another domino in the brick-and-mortar world of retailing unable to successfully navigate the changing landscape of the digital age.

The hedge fund that swooped in to "save" the company likely did not help matters. It loaded Sears up with debt, acquired a failing retail business (Kmart), and sold off profitable business segments (Land's End and Craftsman).

Sears never really had a chance.

Last month we noted (Misleading Indexes and Tesla Drama) that the Securities Exchange Commission (SEC) frowned upon a somewhat irresponsible tweet made by Elon Musk, the founder and CEO of Tesla. The Musk tweet in question announced that he had arranged financing to take Tesla private at $420 per share. Immediately after the tweet, Tesla stock rocketed from around $300 per share to nearly $380.

Within days it became obvious that Musk did NOT have the financing, and that taking Tesla private at $420 appeared to be nothing more than stock manipulation, possibly in an attempt to squeeze the short-sellers. And shortly thereafter, the SEC filed a securities fraud lawsuit against him.

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This was quite unusual, because SEC investigations typically take months, if not years, and involve depositions, grand juries, etc. This investigation took only a couple of days and involved only one very public tweet. And with what appeared to be a slam-dunk, open-and-shut case, it was a foregone conclusion that Mr. Musk would soon be behind bars, à la Martha Stewart.

So how much prison time did Musk get? Zero. Nada.

Not only will he not serve ANY time but he has hardly been inconvenienced. As part of his "punishment," he has agreed to step down as chairman of Tesla and to have his communications monitored. (We'll see how *that* goes).

He also has to pay a fine of $20 million, which sounds like a lot but probably works out to be about 1/10 of 1% of his net worth.

By the way, the take-out price of $420 per share is coincidentally (<u>or not coincidentally</u>) the same number that is so popular in "cannabis culture," with April 20th — 4/20 —unofficially "National Weed Day." According to the SEC lawsuit, Musk landed on the $420 share price partly because he thought it would amuse his girlfriend.

You just can't make this stuff up. And guys have been doing stupid things for girls since the beginning of time.

Speaking of National Weed Day, marijuana has been all the rage in the stock market lately, as shares of the Canadian cannabis company Tilray, Inc., skyrocketed.

But it's not just Tilray. There are other companies and there will continue to be more. Without commenting on the merits of legalizing marijuana, it is a fact that close to half the states have approved it for medicinal use, and many of those also permit it for recreational use. This horse is out of the barn, and legalization will probably continue to spread. As we are writing this, Canada has announced that it has legalized the use of marijuana.

But when someone asks our opinion on how to profit from the stocks associated with the commercialization of marijuana, we are reminded of computer stocks in the 1980s. At that time, there was no question about the rapid expansion of home computing, but questions abounded regarding how to profit from that trend. Who would be the winner? Who would be the losers?

Today it is easy to look back and see that Apple was the ultimate big winner in the home-computing arena, even if a few other survivors are still standing.

But in the 80s, there were a lot of names that *could* have been big winners but fell somewhat short. Some did well and some disappeared altogether. To name a few:

- Commodore
- Atari
- IBM
- Dell

- Compaq
- Tandy
- Texas Instruments
- Wang

You could have lost a lot of money (and many investors did) trying to pick the winner. And we feel the same way about the cannabis industry. Years from now, we will know who the big winner is. But not until then. At Boyer Corporon Wealth Management, our clients don't pay us to throw darts and make bets. It's not likely that we'll try to pick the "cannabis winners."

And while we're on the subject of Tesla and cannabis, we thought it might be a good time to re-visit crypto-currencies and Bitcoin.

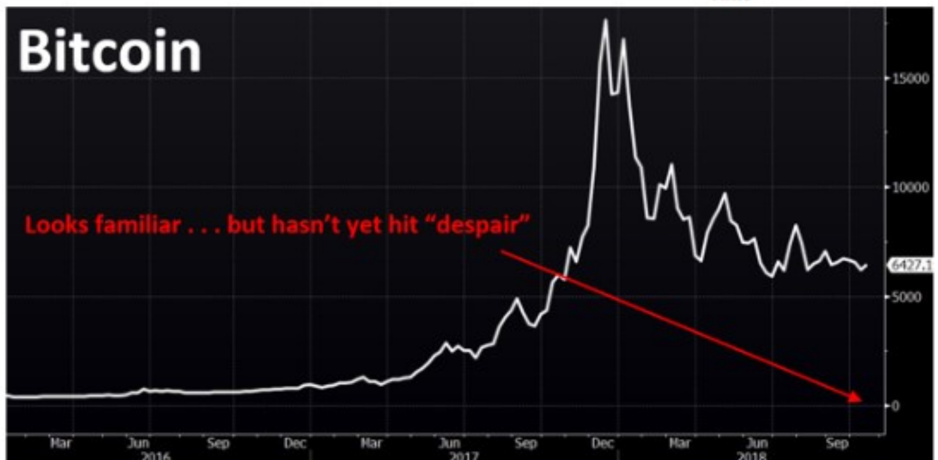
Although the concept of Bitcoin was created nearly ten years ago, it wasn't until last year that it garnered worldwide attention as an alternative currency, de-centralized and unregulated. We have expressed our skepticism multiple times (here, here, and here) about the viability of Bitcoin and other cryptocurrencies.

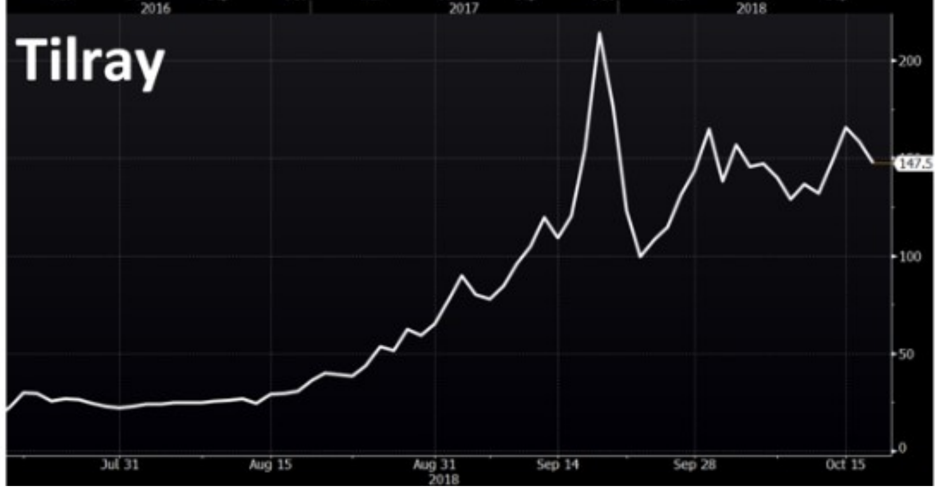
Today, we are no longer skeptical. Today, we think Bitcoin (cryptocurrency in general) is a digital scam perpetrated on a public that has somehow become convinced the emperor is actually wearing clothes. He's not.

Below are some charts we have presented before. The first one shows how "mania bubbles" play out . . . from take-off, through enthusiasm and greed, and then ultimately down to despair.

Below that, is the updated chart of Bitcoin, and it looks incredibly similar. It hasn't quite yet reached despair, but stay tuned.

And the third chart reflects how the price of Tilray exhibited the same manic behavior in September. Keep in mind that the graph only presents Tilray's *closing* price each day. The *intraday* volatility was outrageous during the peak, bouncing around between $150 and $300 over a couple of trading days.





What we find most fascinating is that the velocity at which value is created and destroyed in these asset bubbles is accelerating. The Dotcom bubble (which has a similar graph) took a couple years to run its course. The Bitcoin bubble only took a couple months. And the Tilray bubble . . . a couple weeks!

There are some important differences between Tilray and Bitcoin, however. While their market valuation is highly suspect, pot stocks offer a realistically viable path to ultimate success. Let's face it: a lot more people want to smoke pot than spend cryptocurrencies.

And although many legal, regulatory, and cultural hurdles exist along the way, pot stocks have a business model that is believable. We are not saying they *will* be a success, just that it's possible.

It is hard to say the same for Bitcoin (and other cryptocurrencies). We anticipate that in the future we will think of Bitcoin in much the same way we now think of the Beanie Baby craze of the late 1990s.

Maybe we'll be wrong. Maybe Bitcoin will someday usurp all the currencies of the world and become a "one world currency." But it's not likely. And as we are fond of saying, if you want to gamble, go to Las Vegas. At least you get free drinks.

Last week the Chairman of the Federal Reserve, Jerome Powell, made some interesting comments.

Essentially, he stated that the extremely low interest rates we needed when the economy was weak are now unnecessary. During the Financial Crisis the Fed kept the "Fed Funds" rate near zero to help the economy recover, but a couple years ago it gradually began raising the rate. Mr. Powell thinks Fed policy should be neutral (not supportive) to economic growth and that the Fed Funds rate is "a long way from neutral."

Those comments alone probably wouldn't have been enough to move the needle, but when Powell hinted that the Fed Funds rate may be hiked past the point of neutral and become restrictive, interest rates popped. And for the next few days, markets around the world sold off.

And the selloff continued the following week. At one point, the S&P 500 had dropped more than 5% over a two-day period.

Although, one can never know with absolutely certainty why markets react a certain way, it seems that the stock market is reflecting a worry that the Fed will be much less supportive to economic growth than previously expected. If the economy slows, then earnings will slow, and stocks will drop in value.

Our view for some time has been that economic growth will not accelerate meaningfully, and the recent uptick will be short lived. Therefore, our portfolios have been more defensive in nature. Investors have been kidding themselves if they expected the Fed to keep the wind at their back forever.

Naturally, when rates popped, bonds sold off. We have pointed out before that the Fed controls short-term rates, but it has no direct impact on long-term rates. We believe the biggest driver of long-term interest rates is inflation, and inflation tends to rise and fall with economic-growth expectations. Our view for several years now has been that economic growth will <u>not</u> kick into high gear, and inflation will stay under control. Therefore, we expect long-term rates to retreat.