



## **Zanetti Monday Missive 2022.11.21 CRYPTO MELTDOWN**

**"How do you go bankrupt? Two ways. Slowly, and then all of a sudden."  
~ Ernest Hemingway**

**"Our basic thesis for bitcoin is that it is better than gold."  
~ Tyler Winklevoss (early Facebook investor)**

**"Bitcoin: I think it's rat poison."  
~ Charlie Munger (Warren Buffett's partner at Berkshire Hathaway)**

Happy Monday , Everyone!

This past week we saw a meltdown. A meltdown in the

cryptocurrency market. Specifically, FTX filed for bankruptcy.

For those of you who don't know, FTX is a Bahamas based cryptocurrency exchange. The name was shortened from "Futures Exchange" to "FTX". A "crypto exchange" is where people can buy, sell, and hold their cryptocurrencies – kind of like a bank. But completely unregulated.

FTX was founded in 2019 by a young man named Sam Bankman-Fried or "SBF" as the mainstream media called him - in awe of the way he climbed the ranks of the billionaire club.



(Pictured: Sam Bankman-Fried)

At the time of its founding, people were getting rich off of cryptocurrencies (think “Bitcoin”) and nobody really knew why. Or even cared! They just knew that buying Bitcoin would make you rich.

It reminded me of the Beanie Baby craze at the beginning of the century. Remember those Beanie Babies? And how people were just getting rich off of them... until they weren't?



Well, back to FTX. Sam Bankman-Fried started an exchange so that people could buy and sell their crypto currencies.

He started the company in Silicone Valley and was seen as a Wunderkind. He soon attracted big bucks from around the world – including Chinese investors and even big US hedge funds (Blackrock is one of the losers in this bankruptcy).

Since 2019, SBF moved his headquarters to Hong Kong, then to the Bahamas. Instead of raising red flags to investors, this only added to the mystique of the new world that cryptocurrencies were creating.

FTX was rolling in it. And spending it!

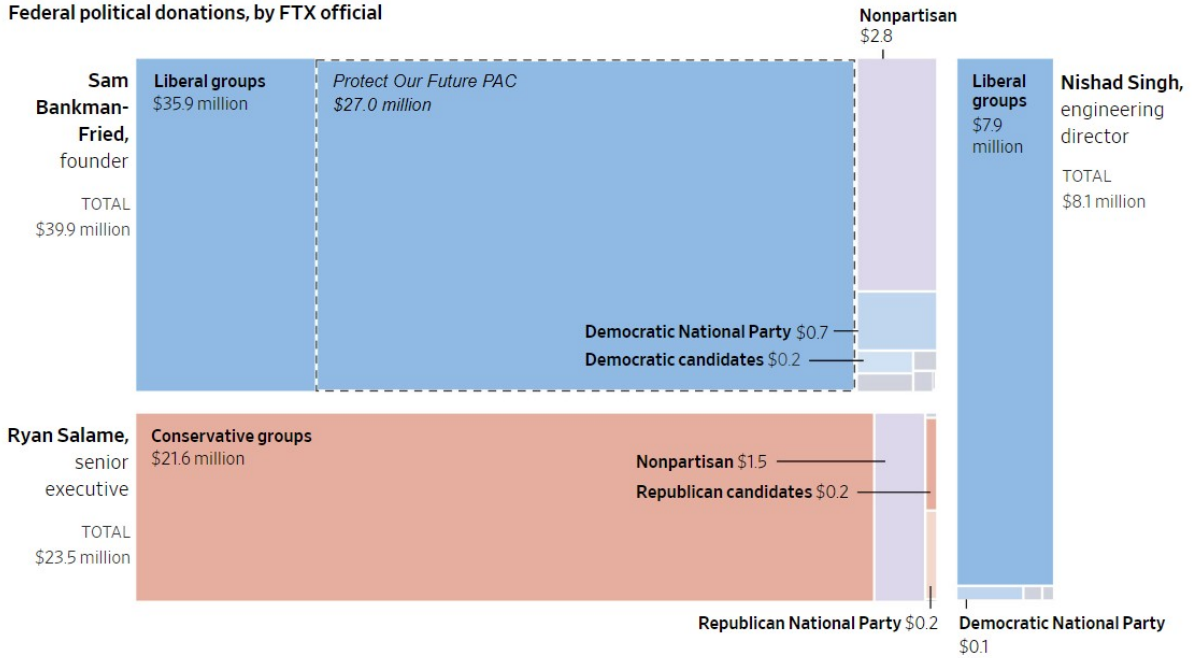
They acquired the naming rights to the Miami Heat stadium: FTX Arena. They also had a deal with major league baseball to put their FTX logo on umpire uniforms. They even sponsored the world Chess Championships.

Then there were the political contributions. Yep, it's getting juicy right?

In the past 18 months, the FTX group (Bankman-Fried and his partners) gave over \$70 million to politicians – making them minor celebrities in Washington DC.

And they gave to both parties – spreading the love. They gave to Chuck Schumer, Nancy Pelosi, Mitch McConnell, Kevin McCarthy, Cory Booker, Kirsten Gillibrand, Susan Collins, and the list goes on and on.

Federal political donations, by FTX official



Source: Center for Responsive Politics

But sometimes the brightest stars burnout quickly...

FTX's troubles started at the beginning of this month... well, let me preface that statement. It's probably safe to say their troubles started much sooner than that, but like many fiascos, the early warning signs are only seen by a few insiders.

Once the bad news gets out to the world, the cows are already out of the barn.





At the beginning of November, an article was published that explained a large portion of FTX's own cryptocurrency FTT (similar to Bitcoin or Ethereum or Dogecoin or the countless other cryptocurrencies that have been created) was being held by another company controlled by Sam Bankman-Fried. With this revelation, one of FTX's competitors known as Binance announced they would sell all of their FTT coins.

When this statement went out, it caught like wildfire and there was an immediate spike in holders of FTT trying to sell their coins. This is the equivalent to a "run on a bank."



As you can probably guess, the young Mr. Bankman-Fried was unable to come up with the cash needed to buy back all of the FTT coins that folks were trying to cash in and he filed bankruptcy.

The time between when Binance stated they would sell all of their FTT holdings to the bankruptcy filing, was less than a week. The details are still emerging about this meltdown and we will see if and what ramifications come from it. No matter what happens, I believe this will cause people to think twice before moving back in to cryptocurrency as a get rich quick scheme or even as a store of wealth.

In fact, Michael Burry – the famous hedge fund investor who predicted and capitalized on the 2007 Mortgage meltdown and then became a household name after the movie “The Big Short” – said this past week, “Long thought that the time for gold would be when crypto scandals merge into contagion.”



I agree, Michael. I agree.

Your We-Hope-You-All-Have-A-Blessed-Thanksgiving-And-We-Are-Thankful-For-All-Of-You Financial Advisor,

Walt

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