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The Cryptocurrency Conundrum

It's more important than ever to be aware of your risk tolerance. Recently, you may have seen a number of major cryptocurrencies fall, thanks to a continuing sell-off that began last week. In fact, over $250 billion was lost in the crypto market alone.[1]

It may be tempting to view this as another volatile moment in the crypto markets, but there's more at work here than a temporary trend towards selling.

Prior to this moment, over 50% of the world's cryptocurrency was mined in China using custom-built computers with a high hashrate. Hashrate, or the rate at which calculations can be performed, is a crucial factor for those who "mine" cryptocurrency. The higher the hashrate, the more calculations that can be completed per second, and the more cryptocurrency that can be mined.[2]

However, these super-powered machines also require a phenomenal amount of power—enough to overload local infrastructure in some cases.[3]

This has led to China directing its electric companies to cut power to major crypto-mining operations across the country. The question is, why now? There may be multiple reasons, but the Chinese government has claimed that it's acting now because of concerns around crypto's volatile price, concerns over electricity use, and cryptocurrency's potential use for money laundering and illegal dealings.[4]

With all of this in mind, it's more important than ever to be aware of your risk tolerance if you're thinking about exploring cryptocurrency. Cryptocurrency is not a currency at all. It's a speculative asset class that is not appropriate for everyone. Only people with a high risk tolerance should consider cryptocurrency assets.

Like other alternative assets, cryptocurrency can be illiquid at times, and its current values may fluctuate from the purchase price. Cryptocurrency assets can be significantly affected by a variety of forces, including government decisions, economic conditions, and simple supply and demand.

Citations

1. CNBC.com, May 19, 2021
2. Theverge.com, June 23, 2021
3. Visualcapitalist.com, 2021
4. Reuters.com, May 21, 2021

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The Quiet Fall in Bond Yields

What's behind the quiet fall in bond yields?

With all the attention given to inflation, stock prices, and job reports, it's been easy to overlook the remarkable move in the bond market during the past few months.

The yield on the 10-year Treasury closed at 1.37% on Friday, July 9, down from its 2021 high of 1.74% in late March.[1]

What's behind the quiet fall in bond yields?

One explanation may be that reopening sentiment has turned a bit more cautious as the Delta variant of COVID-19 spreads globally. Another view is that overseas investors are buying Treasuries, effectively lowering yields.[2,3]

Still another school of thought says it's due to declining inflation concerns, or maybe it's simply more money finding its way into bonds.[2]

Whatever the cause, the yield narrative has changed from just a few months ago when market pundits believed that the 10-year Treasury was heading to 2%.[1]

Will yields keep trending lower or will they do an about face and move higher? A better question to ask yourself is, "does my investment strategy fit my goals, time horizon and risk appetite?" Challenge yourself to tune out the market noise and focus on what matters to you.

Citations

1. U.S. Department of Treasury, July 12, 2021
2. CNBC.com, July 8, 2021
3. The Wall Street Journal, June 11, 2021

A COLA with Your Social Security?

Preliminary estimates call for a 4.7% cost-of-living increase.[1]

If there is a "silver lining" to all the inflation talk, it may be that Social Security benefits are expected to see a larger-than-normal increase in 2022.

Preliminary estimates call for a 4.7% cost-of-living increase (COLA) in Social Security benefits next year, which would be the highest since 2009. Benefits rose 1.3% in 2021.[1]

The Social Security Administration makes its official announcement in January 2022. The Bureau of Labor Statistics bases its annual adjustment on the Bureau of Labor Statistics data in the Consumer Price Index for Urban Wage Earners and Clerical Workers, known as the CPI-W.[2]

A lot can change between now and January 2022, but remember that data from the third quarter of 2021 will be the basis for the COLA for next year.

Social Security is one of the most misunderstood sources of retirement income. For example, only 33% of people in 2021 expected Social Security to be a major income source during retirement. In reality, it was a major source for 62% of retirees.[3]

Retirement may hold many surprises. But your sources of retirement income shouldn't be one of them. It's critical to have a strategy that keeps your expectations in line with reality.

Citations

1. SeniorsLeague.org, May 12, 2021
2. CNBC.com, May 12, 2021
3. EBRI.org, 2021. "Retirement Confidence Survey"