THE INVESTMENT OF THE DECADE

THE TOP PLAYS THAT WILL POWER BLOCKCHAIN'S REVOLUTION

By Teeka Tiwari

THE PALM BEACH LETTER

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Most people familiar with the blockchain know it as the underlying technology of cryptocurrencies.

That's true… The blockchain's main use has been to record crypto transactions. But that's not the only thing it's capable of.

It's a groundbreaking technology that we'll eventually use to record any type of transaction. For instance, you'll be able to sell your car, home, or even artwork on the blockchain. That's why some people are calling the blockchain the new internet.

Now, for most people, the blockchain is a difficult concept to grasp. After all, it's a new technology. But don't let that scare you.

Consider this…

Imagine you're back in 1970. And I tell you that more people would send mail electronically than through mail carriers…

You'd probably think that was incredible, too. Or you'd think that I'm crazy.

Fast-forward 50 years… and today, people send more mail over the internet than through the postal service.

That's the thing about groundbreaking technology. In the early stages, we don't always see how it'll change society.

So what exactly is the blockchain?

At its core, a blockchain is simply a decentralized, distributed online network.

The internet is a great example of this type of network. No one owns the internet. And each computer logged into the internet is a "host." Even if you shut down one host, it won't shut down the entire system.

The blockchain works the same way.

Today, the internet is a global network linking millions of computers. There are over 4.5 billion active internet users and 1.7 billion websites.

Everyone on the internet can communicate with everyone else.

Think of the internet as an online postal service, and the blockchain as an online financial services firm.

Like the postal service, the internet exchanges communications between people. But it exchanges them much faster and more efficiently than the postal service.

Like a financial services company, the blockchain exchanges value between people. But it exchanges value much faster and more efficiently than a bank.

Today, we can instantly send text, voice, and video messages to anyone around the world with just a click of a button.

Soon, you'll be able to exchange something of value online as well – like a stock certificate, land deed, or even a car title – with just the click of a button.

So just like how the internet revolutionized how we exchange communications… the blockchain will revolutionize how we exchange value.

That's why the World Economic Forum has projected that blockchain will store 10% of the world's GDP by 2027. That's $8.6 trillion.

Based on those projections, we could see blockchain technology soar 295,762% over the next seven years alone – up from just $2.9 billion.

And the World Economic Forum isn't alone. Deutsche Bank also forecasts that by 2027, blockchain systems will record transactions for about 10% of global GDP.

Meanwhile, global investment bank RBC Capital Markets estimates the blockchain ecosystem could be worth up to $10 trillion within the next 10 to 15 years.

Plus, the World Economic Forum predicts blockchain could disrupt $867 trillion in traditional markets.

It's tough to wrap your mind around numbers like that… but the important thing to take away is, blockchain-based systems will impact businesses and our lives more than the internet itself.

And Wall Street is taking notice…

Morgan Stanley is rumored to be on the verge of making a huge $2 billion investment in the space.

Goldman Sachs has invested in eight blockchain startups to the tune of $955 million.

Even the conservative life insurer, MassMutual, has now invested $100 million in blockchain.

Much of Italy's banking sector now runs on Spunta, a blockchain network. Spunta helps banks speed up the process of interbank reconciliation, which dictates how much money Italian banks owe each other.

Put it all together and the global blockchain technology market is projected to grow from $3 billion in 2020 to nearly $40 billion by 2025.

That's a compound annual growth rate of 67%.

This is going to lead to an absolute explosion in the technology… and a flood of institutional money heading into this space.

And in this report, we've found two must-own opportunities that'll power this blockchain revolution.

The first pick has positioned itself as the sole "gatekeeper" of blockchain assets. You see, it's the only company cleared by the Securities and Exchange Commission (SEC) to trade blockchain investments like cryptos.

As blockchain goes mainstream… more investors rush in… and new financial blockchain products are introduced, this company will make a cut on every transaction.

Over the next few years, we believe this company will dominate the crypto exchange market.

The second pick gives us broad exposure to the blockchain trend without the extreme volatility of cryptos.

It's a fund that holds a handful of companies transforming their business with blockchain technology.

With all this in mind, let's get to them…

Must-Own Blockchain Pick No. 1: Intercontinental Exchange (ICE)

Intercontinental Exchange (ICE) owns 12 global exchanges, including the largest in the world – the New York Stock Exchange (NYSE).

It also provides markets for stocks, derivatives, interest rates, credit, foreign exchange, metals, and agricultural commodities.

Think of ICE like a global casino operator.

It takes a little piece of every trade on every exchange it owns. Unlike a casino operator, though, it takes on no risk. When somebody wins, it's the loser who pays the winner.

ICE is there to ensure the buyers and sellers have a market they can operate in.

That's how ICE makes its money. It rakes in trading fees from its primary exchange business. They might be pennies, half-pennies, and half of half-pennies… But they quickly add up.

With 33% profit margins, ICE pulled in earnings of $2.1 billion on $6.3 billion in revenues over the last 12 months (at time of writing).

The company is also the leading global exchange for commodities – including futures contracts for oil, natural gas, sugar, cotton, and coffee.

Its old-school trading and clearing fee model accounts for 68% of the company's revenues (including 10% from listing fees). It dominates the exchange business, but management isn't resting on its laurels.

Over the last several years, the company diversified its revenue stream.

Today, 21% of ICE's revenues comes from data services. ICE licenses indexes, software, terminals, and other data sets to financial institutions. The result of this dominance shows in ICE's stellar stock market performance.

When ICE went public in 2005, its market cap was $2 billion. Today, its market cap is $63 billion. That's 22.2% compound annual growth – crushing the S&P Global's 16.9% and the Nasdaq's 18.4%.

And the company's visionary CEO, Jeffrey Sprecher, has been the driving force behind its growth and innovation.

Fortune once dubbed Sprecher as a "disrupter par excellence." That's because he "stands alone as the leading force in modernizing the world's exchanges in recent years from open-outcry pits into super-efficient electronic marketplaces."

Sprecher spearheaded ICE's recent blockbuster project: Bakkt (pronounced "backed"). It's a global platform for trading digital assets that launched last year.

ICE partnered with several big guns on the Bakkt project, including Microsoft, Boston Consulting Group, Starbucks, Fortress Investment Group, Eagle Seven, and Susquehanna International Group.

And Bakkt is continuing to build a secure platform where global institutions can store, transact, trade, and transfer digital assets.

For example, on the institutional trading product side, Bakkt launched its one-day, physically settled bitcoin futures contracts in September 2019 after being cleared by the SEC. It's seen as much as $46.1 million in daily trading volume since then.

And we expect that to grow exponentially…

You see, when institutions complete daily futures trading with Bakkt, they receive actual bitcoin. This is different from Chicago Mercantile Exchange (CME) and Chicago Board Options Exchange (CBOE) contracts, which are cash-settled futures contracts.

This is monumental because it allows financial firms to deal directly in crypto assets, not crypto derivatives. ICE has set itself up to be the epicenter of serious institutional crypto trading.

And the stakes are massive. ICE is the first globally recognized company to offer crypto custody and trading for institutional investors.

In the crypto space, similar first movers were Coinbase (the most popular crypto exchange for individuals) and Binance (the major Chinese crypto exchange). These two tiny companies operate in a tiny ecosystem.

There are an estimated 106 million crypto buyers around the world. Between Coinbase and Binance, they made profits of over $2 billion last year. That's more than Deutsche Bank – the 148-year-old German bank – made that year.

So as crypto trading goes mainstream, we think ICE could emerge as a global linchpin offering crypto trading services to a worldwide base of 500 million stock buyers.

We're not the only ones who see its potential. Firms like Vanguard, BlackRock, and Renaissance Technologies are picking up shares as well.

And as ICE sees demand for its bitcoin futures product ramp up, it'll launch other crypto trading products, too.

In fact, it's already launched the Bakkt Warehouse (which provides safe custody of bitcoin for all institutions)… bitcoin cash-settled futures in Singapore… and the first regulated options contract for bitcoin futures.

This is all showing up in the company's bottom line… ICE has had a strong past few years, with its stock up 25% in 2019, 26% in 2020, and nearly 20% in 2021. The company set records in sales, operating income, and cash flow in 2020. It's continued to set records in revenue into 2021, reflected in its increasing stock price.

But there's still more room for growth in the years ahead. As mentioned, the company will continue to launch new products that'll earn more fees. Fees from Bakkt's crypto trading alone could add billions more to ICE's bottom line.

Over the next three years, earnings could double just based on the profits generated by the Bakkt platform. But even without Bakkt, ICE is a stock we want to own. You see, ICE is fundamentally undervalued. It trades at a 12% discount to its exchange-operator peers and a 25% discount to its market data provider peers…

Factoring in the crypto component, and the stock could trade nearly three times higher from where it is today.

Operating as a traditional exchange and data provider, ICE has been a marvelous stock to own.

It sports an annualized return of 22.6% since its 2005 IPO. That's more than double the S&P 500's 10.4% over the same span. And we even get a 1.2% dividend to boot. That's just about unheard of from a growth stock.

With ICE, you have all the upside of the crypto market wrapped up in a traditional exchange powerhouse that'll go on making billions in profits with or without the crypto market (which could become the largest alternative asset class in the world).

Owning ICE today is a no-brainer. Regardless of the potential upside of its Bakkt division, it's a stock you want in your portfolio.

Action to Take: Buy Intercontinental Exchange (ICE).
Buy-up-to Price: See the portfolio page here.
Position Size: Up to 1%
Stop Loss: None
Asset Allocation: Equities

Must-Own Blockchain Pick No. 2: ARK Fintech Innovation ETF (ARKF)

The **ARK Fintech Innovation ETF (ARKF)** is an actively managed exchange-traded fund (ETF) from ARK Invest.

ARK Invest, the firm behind this ETF, focuses solely on "disruptive innovation," including artificial intelligence (AI)… energy storage… robotics…

genome sequencing… and of course, blockchain.

As of today, ARK Invest has over $43 billion in assets under management.

Since inception, the average return of ARK's first four actively managed ETFs is 314 percentage points higher than the return of the S&P 500.

And ARKF is following in their footsteps…

You want to own ARKF because it gives you broad exposure to companies that are transforming their business with blockchain technology.

Our research shows more than 90% of the stocks in ARKF are either investigating, testing, or using blockchain.

Some of the fund's top blockchain-related holdings include Square (digital wallets), PayPal (online payments), Z Holdings (media/e-commerce), and Silvergate Capital (financial services).

I can't think of any other vehicle that gives you this much exposure to the blockchain with this level of market-beating capability.

I firmly believe the majority of consumer banking will move away from the big banks and onto digital apps owned by a handful of scrappy startups. Blockchain will be one of the technologies they use to drastically cut compliance and operating costs.

This will lead to fintech companies being able to offer services and conveniences big banks just can't afford to match.

Since many of these companies are young, I want to take the prudent approach of owning a basket of them. And that is exactly what this ARK ETF lets us do. To get an idea of what we can earn with ARKF, let's look at what ARK has already accomplished…

ARK Invest will only add stocks to its ETFs it believes can return at least 15% per year over five years. So far, it's beat that hurdle. Across its first four funds, the annualized average return since inception is 29.9% per year.

To put that in perspective, over the same period of time, the S&P 500 has averaged just 14.2% per year.

So if ARKF generates an average return of 15% per year, it'll more than double in price in the next five years. And over 10 years, it'll more than quadruple in price.

But I think it will do much better than that. As I've mentioned many times, blockchain will be a wealth-builder beyond anything you've ever seen before.

That's why I think 15% per year is too conservative. An average of 32% per year would put it on par with the performance we've seen in some of ARK's best ETFs.

I think ARKF will at least match that. That means it will more than quadruple in the next five years. And in 10 years, your money will grow more than 16x.

ARKF is an easy, one-click way to get exposure to dozens of disruptive companies in the blockchain space without the extreme volatility of cryptos. Plan to hold ARKF in your portfolio over the long term.

Action to Take: Buy the ARK Fintech Innovation ETF (ARKF).
Buy-up-to Price: See the portfolio page here.
Stop Loss: None
Position Size: Up to 1%
Asset Allocation: Equities