



**MIDWAY
PARTNERS**

CAPITAL MANAGEMENT

MEMORANDUM

Date: March 29, 2023

To: General Distribution

Subject: Investing and Crypto Currency

The following is an excerpt from the December 31, 2022 partnership letter. It provides an overview of our thoughts towards crypto currency and investing.

Thoughts on Crypto Currency

We have some thoughts on the emergence of crypto currency that we think are worth jotting down now (and probably should have earlier). We will start with the technical issues and finish with the philosophical. Before we start, we want to point out that blockchain technology may have utility in many areas of business security, data storage, etc. The technology is not where we take issue. We have no interest in crypto currencies or any assets, virtual or real, that lack intrinsic value. Here is an overview of our thoughts.

1. We find it peculiar that swaths of investors, professional and retail alike, believe that they can successfully trade crypto currency. Most do not trade or have experience trading other standard currencies, e.g. the dollar, the euro, the yen, etc. With no experience in currency trading, the idea of making sustainable profits trading crypto currency seems irrational. Why are these purchases being made in the first place? As a great man once said, “The world isn’t driven by greed, its driven by envy.”
2. Moving to our bread and butter, intrinsic value. All currency, whether virtual or fiat, does not have intrinsic value. Therefore, **currencies cannot be valued**. They can only be priced relative to other currencies or assets. This is the case for all non-productive assets that do not generate cash flow. If you own a cellar of expensive wine (or other collectibles such as tulips), after a year goes by all you have is bunch of wine still sitting in the dark. You do not have any new bottles of wine. It may be possible to sell the wine for more dollars, but that is supply and demand driven.

In contrast, if you swap that wine for a profitable company, after a year goes by you will have the company plus the pile of cash that it generated. You can then use that cash to buy more companies that produce even more cash and so on. Supply and demand set the **price** of non-productive assets, whereas cash flow sets the **value** of productive assets.

Crypto currency falls into the non-productive category. It is impossible to estimate an intrinsic value, so we avoid it.

3. To expand on #2, if an asset cannot be valued, then purchasing it does not fall into the category of investing. It should best be described as speculation. One might say that the definition of investing versus speculation comes down to semantics, but we think it is important to draw a bright line between their meanings. When entering any financial market, it is most important to know (or better yet to be honest about) the game you are playing. As we have said before, we aim to play the long-term investing game.
4. As for those advocating for new financial paradigms built on crypto currency, time will be the judge. There is a notion that, if only the monetary system worked in a new way, the world would be a better place. It is unlikely that any monetary system will ever be perfect. We find it naive to think that a system designed by people, will not retain the fallibility of its creators or patrons. Approaching such monumental shifts with a drop of humility might save a boat load of actual U.S. dollars.

In summary, trading currencies (virtual or otherwise) is not investing, nor is it a strategy that makes any sense to us. We will stick with investing real dollars in real quality companies. There is enough opportunity there to keep plenty busy.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jordan Lampos', with a stylized, cursive script.

Jordan Lampos

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