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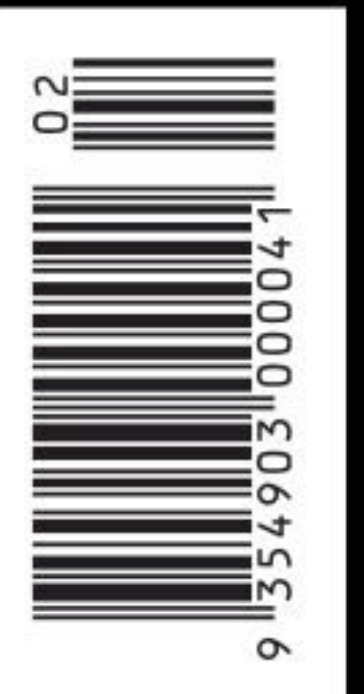


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Blockchain builds the trust factor

A poor understanding of crypto technologies may be keeping investors away from profitable investments

A mere mention of the words cryptocurrency, blockchain, decentralised finance (de-fi), tokens and coins that come with countless prefixes is enough to cause many investors to pull down the mental shutters and run for the comfort of what they know. Older investors appear to display a greater distaste (I am generalising, of course) or cynicism of all things crypto, based on, well, that they are too cryptic to understand.

But it can be worth the effort to dig deeper into “crypto technologies” and entertain their emerging uses. If you are armed with greater tech knowledge, investment opportunities will present themselves.

The past 40 years have brought us the internet, convergence of email, voice and video communication, smartphones, big data, cloud computing and we are in the early days of the internet-of-things. But a key limitation for business and economic activity over the internet is the trust factor and not being able to reliably establish each other’s identity and undertake direct transactions online. This limits us in being able to exchange money unless we use an intermediary, a bank or government. These intermediaries collect our data and monetise it for their own use, opine the libertarians.

Enter cryptocurrencies built on blockchain technology. In a nutshell, they are widely accessible databases that are saved on open networks of private computers that are not owned by any single group, company, institution or government. Anyone can write a new digital record into these databases.

Blockchain databases offer internet users a distributed trust network. This has never happened before – trusted transactions directly between two or more parties, authenticated by mass collaboration and powered by collective self-interest rather than by large corporations motivated by profit. This is a major breakthrough and is causing a mushrooming of distributed ledgers (databases) called blockchains, of which bitcoin and ethereum are the largest.

The biggest impact of blockchain technology will be felt in the global financial services industry, worth over \$22 trillion. Consider retail banks, which traditionally provide a place to store value and offer payment infrastructure to move this value around. Beyond that, the retail banks extend credit and generate income. In the new blockchain-enabled de-fi world, consumers will be able to download an app, store value digitally (rather than in a bank account) in whatever fiat currency or cryptocurrency they like and make payments instantly and at no cost, with global interoperability and better privacy and security.

Another example of blockchain implementation is in the mutual funds industry. Franklin Templeton, which has \$1.5 trillion of assets under management, brought to market a fixed-interest fund in 2021 whose shares are built on a blockchain. The blockchain will process the buys and sells of units in the fund and record ownership. It can trade 24 hours a day, 365 days a year and unit holders don’t have to manually put in forms for redemption with human intervention.



3 FUNDS TO WATCH

1 ETFS Fintech & Blockchain ETF

This ETF (ASX: FTEC) gives investors exposure to leading financial technology and blockchain companies around the globe. The index contains 75 companies in developed markets, drawn from a range of fintech sub-themes. These include blockchain, data and research companies, buy now, pay later companies, digital wallets and more.

2 Perpetual Global Innovation Share Fund

The fund looks to provide investors with long-term capital growth through investment in quality global shares that benefit from changes in technology and innovation. The strategy employs a bottom-up stock selection approach and believes that changes in technology and innovation can have a significant impact on future earnings and valuation of companies, and that an understanding of these changes can lead to early identification of undervalued stocks.

3 ETFS Semiconductor ETF

The fund (SEMI) gives investors exposure to the world’s leading semiconductor companies. Demand for semiconductors is being driven by a greater use of electronic devices, including servers for cloud computing, chips for artificial intelligence and robotics, video game consoles and PCs, and electric cars.

Smart contracts are another innovation. They allow financial and other assets to be exchanged using computer code with no solicitor or escrow agent involved. Computer tools can perform detailed risk assessments of smart contracts and specific de-fi products. As of August 2021, the ethereum blockchain contained roughly \$US80 billion of locked capital in smart contracts, which have already been deployed for a wide range of uses, and allow users to borrow, lend, exchange or trade assets on a blockchain.

The Australian government is moving ahead with a legal and tax framework for the various crypto assets and exchanges, which will give further legitimacy to 600,000-plus Australian investors in digital assets.

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