

# SEBS

Strategic Equity & Business Solutions

## SEBS | Equity Research

March 18, 2025, 4:00 PM ET

**Markets: Collectibles, Sealed Products, Digital Assets**

Impacted Groups: Gaming, Retail

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## *Gotta Catch 'Em All*

### Introduction

In recent months, financial markets have faced significant turbulence as new administrative actions disrupt the status quo, triggering a historic shift in debt markets. This uncertainty has led to equity pullbacks and heightened volatility, particularly for businesses reliant on global trade and accommodative policies. However, not all markets respond equally. Amidst these macroeconomic shifts, we have observed a notable surge in demand for both physical and digital collectibles. This uncommon divergence highlights the evolving investor behavior and growing prominence of modern alternative assets.



## Abstract

Over the past decade, returns on ‘sealed’ collectible products (unopened and factory-sealed) such as trading card game boxes, video game cases, and other packaged collectibles have significantly outperformed equities. This analysis examines the key collectibles markets, including Pokémon, Magic: The Gathering (MTG), and Counter Strike: Global Offensive (CSGO), exploring the factors driving their resilience amid broader market corrections. We also explore the psychology behind alternative investments and assess the long-term viability of sealed collectibles as a distinct asset class.

## Historic Returns

As investors, we have access to a wealth of platforms that track stock performance over extended periods of time, enabling back testing, industry cycle analysis, and precise valuation of securities. These tools provide critical insights that drive informed investment decisions.

However, alternative investments such as sealed collectibles and digital assets lack the same level of standardized tracking and historical data. This makes market valuation and trend analysis more complex. Below, we have compiled price change data from three primary collectibles markets, and after we jump in, you’re probably going to want to check your attic, or sons sock drawer. Have a look:

## Pokémon

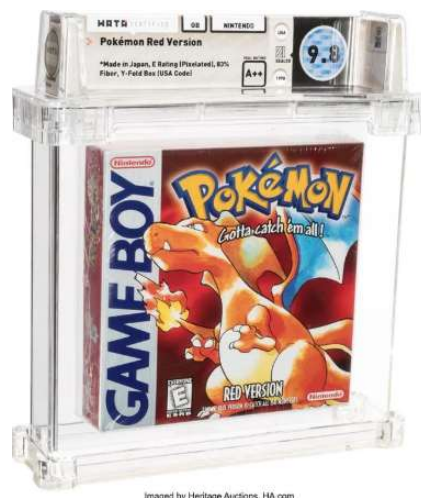
First up is Pokémon. For those unfamiliar, the Pokémon Trading Card Game was introduced in the late 1990s and quickly captured the hearts of millions of children worldwide, thanks to its captivating artwork and collectability. Hence the iconic slogan and title of this article, “Gotta Catch ‘Em All!”.

The table below illustrates the performance of recent Pokémon card sets over the past decade, with returns significantly outpacing the S&P 500 average return of 10.3%. Certain vintage sets from the late 90s have seen astronomical gains, surpassing 200,000% from their original MSRP.

| POKEMON SEALED RETURNS BY ERA |                      |                  |              |
|-------------------------------|----------------------|------------------|--------------|
| ERA                           | BEST SET             | ERA AVERAGE CAGR | LAST Q PERF. |
| XY                            | Ancient Origins      | 26.40%           | 16.64%       |
| Sun & Moon                    | Team Up              | 29.25%           | 12.24%       |
| Sword & Shield                | Evolving Skies       | 22.86%           | 14.07%       |
| Scarlet & Violet              | Prismatic Evolutions | 36.82%           | 14.43%       |



Above: \$1 Million AK-47 Case Hardened CSGO Weapon Skin



Above: Even the games themselves sell at auction, with this Pokémon ‘Red’ Gameboy game selling for \$85,000



Above: 1999 1<sup>st</sup> Edition Charizard PSA 10 sale in June 2024

The Pokémon product extends beyond cards to toys, games, and other merchandise, but the trading cards themselves have evolved into a significant investment vehicle, with some sets doing millions of dollars in sales per week. The cards are sold in “booster boxes,” which contain multiple packs of cards that collectors can open and add to their collections. Over time, these products have become valuable assets, with individuals stockpiling unopened boxes for potential future gains or selling them when supply dwindles. The limited print runs of certain sets give these cards the appeal of scarcity, a key factor that drives their value. By examining historical trends, we can identify examples of substantial returns over extended periods for select Pokémon collectibles.

## Magic: The Gathering

Up next, let’s turn our attention to Magic: The Gathering (MTG) to further explore the landscape of collectible investments.

| MTG RETURNS BY THE YEARS |                             |                 |              |
|--------------------------|-----------------------------|-----------------|--------------|
| Year                     | Best Set                    | Average Returns | Last Q Perf. |
| 2019                     | Throne of Eldraine          | 0.75%           | 5.18%        |
| 2020                     | Lair of Behemoths           | 1.10%           | 5.01%        |
| 2021                     | Modern Horizons 2           | -3.30%          | 4.70%        |
| 2022                     | Neon Dynasty                | -2.69%          | 7.58%        |
| 2023                     | LOTR: Tales of Middle Earth | 42.00%          | 2.31%        |
| 2024                     | Fallout                     | 35.00%          | 14.49%       |

Magic: The Gathering shares a similar history with *Pokémon*, though it hasn't achieved the same level of mainstream popularity. Despite relatively modest compound annual growth rate (CAGR) returns on its flagship products, performance in the last quarter shows a notable uptick in prices across the board, even amid economic uncertainty.

## CSGO

CSGO (Counter-Strike: Global Offensive) is a video game that features collectible items in the form of weapon skins, which are obtained by opening virtual "cases". Players purchase these cases and keys to unlock a random assortment of skins. While many weapon cases initially hold little value, as they can be earned for free through gameplay, some rare skins have seen significant appreciation in value, driving the popularity of investment.



Above: Post Malone Buys \$2.6 Million Special Edition Magic Card



Above: Youtube and Investor "Alpha Investments" is one of the most prominent players in the space, having huge collections in sealed Magic, Pokemon, and Legos

## CSGO CASE RETURNS BY YEAR

| Year | Best Case           | Average Returns | Last Q Group Perf |
|------|---------------------|-----------------|-------------------|
| 2015 | Chroma              | 56.11%          | 31.35%            |
| 2016 | Glove               | 75.19%          | 14.38%            |
| 2017 | Hydra               | 88.57%          | 10.31%            |
| 2018 | Horizon             | 66.80%          | 26.98%            |
| 2019 | Prisma              | 68.70%          | 33.71%            |
| 2020 | Prisma 2            | 79.76%          | 28.07%            |
| 2021 | Riptide             | 84.26%          | 32.55%            |
| 2022 | Dreams & Nightmares | 16.75%          | 20.77%            |
| 2023 | Revolution          | 32.57%          | 13.77%            |

In the long run, once cases can no longer be earned through gameplay, their prices begin to rise, and this market has experienced extraordinary investment returns since the game's release in 2013. The highest average compound annual growth rate (CAGR) occurred in 2017, when three cases collectively achieved an 88% CAGR. In the most recent quarter alone, many of the year's releases have increased by more than 10%, with the 2019 cases seeing a 33% return during this quarter

But why are collectibles markets running hot when broad markets are selling off, and people supposedly are running out of money?

### Why Invest in Collectibles?

First and foremost, the 'collectible' markets go through their own cycles based on new content, creator exposure, nostalgia, and game popularity resurgence. This decouples them from the broad markets, which are more impacted by changes in capital inflows and outflows, as a result of federal reserve action and economic policy. As a means to diversify a portfolio, these assets that have no direct correlation to the broad market and can be a good way to dilute risk.

There are tons of collectibles, and we chose these three. Why?

All three sets of collectibles have been benefiting from a spending tailwind driven by the millennials. As millennials enter their 30s, an age when many individuals gain disposable income, they are returning to the hobbies they enjoyed in their youth. This can be seen as a "return to the hobby" trend. While Pokémon and Magic: The Gathering have been major players in this buoyance, Counter-Strike: Global Offensive, released in the early 2010s, is also experiencing a similar resurgence.



Above: Correlation between CSGO case returns of period of time

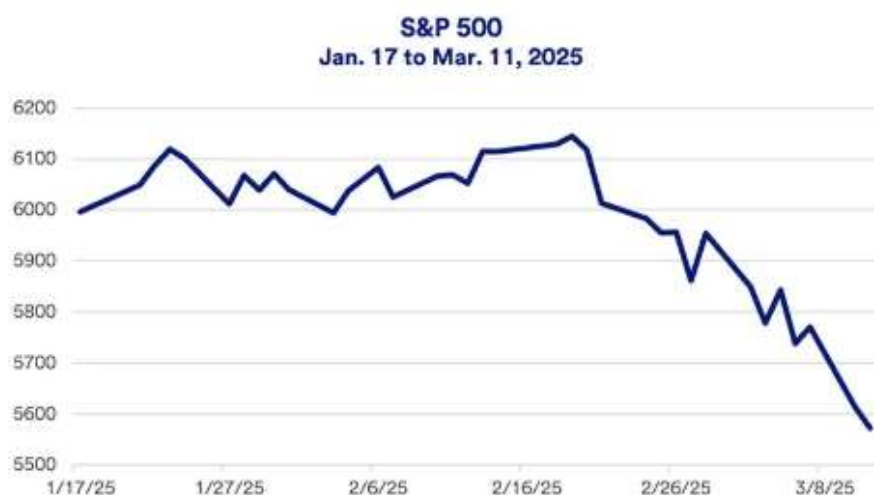


Above: Famous Youtuber Logan Paul Opens \$200,000 Box



We believe that, more recently, these collectibles have also become part of an ‘uncertainty trade.’ In a market where assets are at all-time highs, investors look to familiar and nostalgic items they know and trust, rather than taking on the risk of inflated assets.

Since the Trump election in November, markets have rolled over, returning -6.5%. New investors looking to deploy capital have not fully bought into Trump’s long-term vision and instead choose to allocate funds into more speculative but understood opportunities. The popularity of cryptocurrency has also aided in this development, as people seek opportunities in “scarce” investments, like Bitcoin, which has been championed as a limited supply asset for years. A similar example for older generations is fine art, watches, and historic artifacts.



Lastly, ‘life’ has gotten expensive. Capital gains taxes have a high cost, and this has turned collectibles investors to cash heavy marketplaces where investments can be exchanged with varying levels of legality. We obviously do not condone hiding funds in this fashion, but it is nonetheless happening and can be observed through the huge influx of participants at major gatherings such as Collect-A-Con and Front Row Card Shows. This last year the show saw 300 vendors and tens of thousands of enthusiasts, many of whom brought hundreds of thousands in inventory to buy, sell, or trade.

Global investments made into these collectibles, especially from China, are huge since they do not have the means to invest in traditional markets like U.S. based investors. All of the figures shared here are from American exchanges and sources to track volume, and do not account for the collectors overseas. This is also a propellant of the gold thesis, where Chinese funds have bid up the price for over a year now. All of these factors pile in to create a hotbed for speculation and high returns.



Above: Front Row Card Show, Las Vegas: Bulbastore

## Conclusion

Amidst traditional market turmoil, collectible markets have seen a large resurgence thanks to significant tailwinds in uncertainty, leading young money to explore alternative ways to spend and invest. Throughout history, fad collectibles have come and gone, and we wonder if this new crop will be any different. What we cannot deny is the outsized returns of these products since they became “investible”, and the value proposition behind them. Albeit void of true value in the fundamental sense, they do still represent value in the hearts and minds of children grown, and the allure of the gamble is not something to be trifled with.

We currently have no positions in the collectible markets; however, this is a new market that will be monitoring as it develops.

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