January 2025

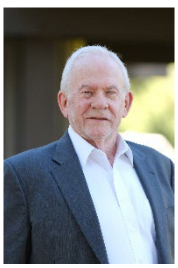
THE CAPSTONE QUARTERLY

Happy New Year! We hope 2025 brings you prosperity in whatever aspect of life is important to you. With a lot of volatility and important headlines this year, the markets persevered and ended in positive territory. In this newsletter, Bryce discusses how Bitcoin works, and Casey gives a recap on the economy and markets in 2024.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Cryptocurrency



Over the past few years, Bitcoin has been all over the news headlines, especially with the positive gains it has made recently. Many people are hearing about Bitcoin in the news but are not sure what it is or how it works. We thought we'd give a breakdown of Bitcoin (or cryptocurrencies, for that matter), and the way we understand it.

Bitcoin is the original cryptocurrency and is currently the largest of hundreds (maybe even thousands) of other cryptocurrencies that currently exist.

Bitcoin's real genius is more in its economical design than in any technical innovation. Bitcoin creates a cash system where participants do not have to rely on an intermediary such as a bank or payment processor to facilitate transactions. The system is also designed to prevent the "double-spending" of a coin – think overdrawing your checking account. Each coin unit is unique and cannot be replicated or destroyed. The system runs on top of a distributed network maintained by thousands of incentivized miners using their 'nodes' across the globe.

To understand Bitcoin, we need to first know about blockchain. Bitcoin and blockchain might be used interchangeably, but they are two different things. Since Bitcoin was an early application of blockchain technology, people began using Bitcoin which includes the blockchain technology. But blockchain technology has many applications outside of Bitcoin.

Blockchain is the innovative database technology that's at the heart of nearly all cryptocurrencies. By distributing identical copies of a database across an entire network, blockchain makes it very difficult to hack or cheat the system. At its core, blockchain is a distributed digital ledger that can store data of any kind. For our discussion today, we'll focus on how blockchain records information about cryptocurrency transactions.

While any conventional database can store this sort of information, blockchain is unique in that it's totally decentralized. Rather than being maintained in one location by a centralized administrator—think of an Excel spreadsheet or a bank database—many identical copies of a blockchain database are held on multiple computers spread out across a network. These individual computers are referred to as nodes.

The name blockchain is hardly accidental: The digital ledger is often described as a "chain" that's made up of individual "blocks" of data. As fresh data is periodically added to the network, a new "block" is created and attached to the "chain." This involves all nodes updating their version of the blockchain ledger to be identical. As a reward for their efforts in validating changes to the shared data, individuals called 'miners' operating these nodes are typically rewarded with new amounts of the blockchain's native currency—e.g., new bitcoin on the bitcoin blockchain.

What is the difference between Bitcoin and blockchain? Bitcoin is a digital currency that operates without any centralized control. Bitcoins were originally created to make financial transactions online but are now considered digital assets that can be converted to any other global currency like the US Dollar or Euros. A public Bitcoin blockchain network creates and manages the central ledger.

There are both public and private blockchains. In a public blockchain, anyone can participate, meaning they can read, write or audit the data on the blockchain. Notably, it is very difficult to alter transactions logged in a public blockchain as no single authority controls the nodes. A private blockchain, meanwhile, is controlled by an organization or group. Only it can decide who is invited to the system plus it has the authority to go back and alter the blockchain. This private blockchain process is more similar to an in-house data storage system, except spread over multiple nodes to increase security.

Because a blockchain transaction must be verified by multiple nodes, this can reduce error. If one node has a mistake in the database, the others would see its difference and catch the error. In contrast, in a traditional database, if someone makes a mistake, it may be more likely to not be caught right away. In addition, every asset is individually identified and tracked on the blockchain ledger so there is theoretically no chance of double spending it.

Transactions are typically secured using cryptography, meaning the nodes need to solve complex mathematical equations to process a transaction. Some digital assets are secured using a cryptographic key. You need to carefully guard this key. If the owner of a digital asset loses the private cryptographic key that gives them access to their asset there is currently no way to recover it– the asset is gone permanently. Because the system is decentralized, you can't call a central authority, like your bank, to ask to regain access!

Blockchain's decentralization adds more privacy and confidentiality, which unfortunately makes it appealing to criminals. It's harder to track illicit transactions on blockchain than through bank transactions that are tied to a name. We had the internet for about 15 years before we saw the first version of Google and another 5 years after that before Facebook was launched. Therefore, it's hard to predict where blockchain technology will be in another 10 or 15 years, but much like the internet, it may significantly transform the ways we transact and interact with each other in the future.

Did you know?

The oldest currency still in use today is the British Pound. It dates back to 775 AD and was originally called the pound sterling. Today, the foreign currency is the fourth most traded currency in the foreign exchange market, after the US dollar, the euro, and the Japanese yen.
Source: https://www.cmcmarkets.com/en/learn-forex/worlds-oldest-currency

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CASEY'S CORNER

Casey Morris, CFP®

2024 in Review

2024 has been a year of growth, despite many challenges. The growth was driven by resilient consumer spending, strength in our labor market, and some stabilization caused by geopolitical tensions (think: the war in Ukraine).

Inflation, while lower than in recent years, has remained an issue still in areas like food and housing. The U.S. Federal Reserve (aka "the Fed") had been raising interest rates since 2022 in an effort to control high inflation, which peaked at a 40-year high. In 2024, the Fed lowered interest rates three times throughout the year. December was the last rate cut of the year, bringing interest rates back down to the level they were at in December 2022. When the Fed cuts rates, they are essentially lowering the cost of borrowing so that people and companies are more willing to spend and invest. In the last rate cut of December, the Fed seemed to be making an effort to keep the economy stable since it appears to be steady (but cooling).

The stock markets ended the year on a positive note, with most of the indexes posting double digit returns for the year. Technology stocks did well in 2024, thanks to the rise in artificial intelligence and other innovations. The healthcare sector and materials each saw mixed results, not doing quite as well as other areas of the markets. For our advisory clients, we had success this year investing in large company US stocks, aerospace, and technology. Aerospace & defense was a positive trending sector that we were able to take advantage of, along with a brief stint in crypto ETFs. With rising interest rates, the bonds we invested in had healthy interest and dividend rates helping boost accounts.

As we move into 2025, the focus on the economy will be stabilization and whether inflation remains in check. The stock market likely will remain volatile in the short term as we navigate the interest rate environment. The overall outlook remains positive and we hope to see the markets build off the growth they started in 2024. It is typical to see pullbacks in the markets throughout the year, which is something we are always watching. As always, we continue to monitor the markets and are prepared with an exit strategy for our advisory clients if things start heading in the wrong direction for an extended period.

Sincerely,

The Team at Capstone Pacific

FINALLY…

Towards the end of the month, Casey and her husband John (who is now full-time with Capstone Pacific) will spend a few days at a conference held by a closed network of financial advisors that we are part of. This network shares education and best practices with each other, which is very unique in our industry to have such a mutuality with those that can potentially be our competition. We are excited for the knowledge they will bring back with them and the connections they will make with our peers while there.

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P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.