

## Crypto Pump and Dump

June 24, 2022

On its first day of trading as a direct listing Coinbase closed at \$328 per share giving it a market capitalization of \$85 billion. On that same day, April 14, 2021, Coinbase's Chairman and CEO, Brian Armstrong, sold 750,000 shares at \$389 per share raising about \$291 million for himself. At the end of that first trading day shares closed at \$57, an 82% decline. Co-founders Armstrong and Fred Ehrsam, as well as President and Chief Operating Officer Emilie Choi and Chief Product Officer Surojit Chatterjee, together grabbed about \$1.2 billion in real money (\$) through February 2022. In conventional IPO's there is a lock-up period of 90 to 180 days before employees can sell their shares. Rules aren't necessary for those that play childish games.

It's indicative of the real nature of cryptocurrency that when the real economy showed signs of weakening, the bottom fell out of the entire crypto phenomenon; even big names like Bitcoin lost 70% of its value, and those supposedly backed by real money did no better. A group of 26 scientists, software engineers, and the like, sent a letter to the House and Senate finance committees that described the crypto concept as a fraud – *“Blockchain technology cannot, and will not, have transaction reversal mechanisms because they are antithetical to its base design.”*

Because of the suspect claims of crypto one would think that the core banking system would avoid investing in it like the plague. The big banks; those that would affect the world banking system if a single one of them crashed, are known as G-SIBs (Globally Systemically Important Banks). Thus it came as a surprise that one such G-SIB, thought to be especially careful in its investing (founded in Boston), it State Street Bank. It has a custodian bank on Wall Street that is the custodian or administrator of \$47 trillion of assets as of the end of March this year. It also has a federally insured bank with \$176 billion in deposits. Apparently wanting to change its image of a fuddy duddy bank it started a new division – State Street Digital Solutions and offers a full line service for the business: Digital cash, Tokenization, and Trading. This was before Celsius Network shut down withdrawal of \$11.8 billion customer investments, and Terraform Labs lost \$40 billion of crypto-crap in a flash. No one knows the Nature of State Street's stake in crypto but its stock value is down 34% year to date.

## **Recession?....Certainly!**

On Friday the markets had their best day in a month. How so with all the bad economic news? Because the real economy is now sinking so rapidly that Powell will be forced to stop raising interest rates. For many investors, especially vultures, low interests are always good especially when an economy is crashing. The perfect time to buy assets for pennies on the dollar by picking up the remains of ruined companies, or conversely, loans secured by company stock to firms at such risk they can no longer obtain funds from reputable firms.

Capitalism always strains to make everything going wrong in the economy the result of something outside of their control. With the pandemic they could blame it on nature, most people being unaware that the damage done to nature by ruthless capitalist production violates the natural boundary between humans and animal life, and the resulting lockdowns and disruptions have lasted longer than expected because of it.

Special attention was given to China - the retail producer to the world. Without goods to sell a business fails. And then when China came back to life it was the lack of shipping containers and tied up port facilities. Then there is the odd way China fights a few positive Covid cases -- its will shut down whole communities for testing and lockdown. But is China so maddeningly protective of its citizens that it will do so much harm to their economy?

A more likely explanation is that China has found a shrewd approach to disguise a failing economy. Rather than exposing the truth by having to warehouse unsalable goods, or alternatively dismissing many workers, it's much better to find an excuse that evades the production process. Covid to the rescue. And on the buyer side; they could cancel orders, not because they are see a recession coming, but because the China source is all messed up.

According to S&P Global (previously IHS-Markit) manufacturing was expected to fall in June to 56 from May's 57. Instead a severe one month decline to 52.4. Both production and new orders fell below 50, just like the bad days of 2020. More important than numbers is the persistence of direction, and that is consistently downward.