

Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

May 2021

What in the World are NFTs?

A Look at Non-Fungible Tokens.

U.S. Markets

A succession of robust economic reports and a healthy start to the corporate earnings season helped spark an April rally on Wall Street. The Dow Jones Industrial Average gained 2.71 percent while the Standard & Poor's (S&P) 500 Index picked up 5.24 percent. The Nasdaq Composite led, climbing 5.40 percent.¹

Signs of Recovery

Stocks raced ahead in the first half of the month, lifted by multiple signs of economic recovery, including an impressive jobs report, a jump in retail sales, and a pick up in housing starts.^{2,3,4}

The accelerating pace of vaccinations helped investor sentiment in the U.S. However, overseas vaccine distribution struggles and the suspension of a COVID-19 vaccine also tested investors last month.

Earnings Power

Coming into April, investors were anxious to see what first-quarter profit reports would hold. Corporate America did not disappoint.

S&P 500 companies appeared poised to report the third-highest net profit margin since tracking began in 2008. With 40% of S&P 500 index companies reporting, earnings-per-share growth (EPS) is now estimated to be 29.3%, well ahead of the 12.2% EPS growth rate that analysts had expected at the start of the year.^{5,6}

Stocks mostly moved sideways in the second half of April, but they managed to hold onto the earlier gains, providing investors with a solid month of performance.

MARKET INDEX	Y-T-D CHANGE	February 2021
DJIA	10.68%	2.71%
NASDAQ	8.34%	5.40%
S&P 500	11.32%	5.24%
YIELD	YTD	February 2021
10 YR TREASURY	0.71%	1.63%

Sources: Yahoo Finance, April 30, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

Monthly Quote

"My best successes came on the heels of failures."

BARBARA CORCORAN

Tip of the Month

Do you need several credit cards? Maybe not, especially if you don't use some of them. Unused credit cards can negatively affect you if you apply for a mortgage or personal loan as lenders look at your "available credit" (used and unused) to decide if you are overextended.

The Monthly Riddle

This is an unusual paragraph. How quickly can you find out what is unusual about it? It looks so plain you would think nothing was wrong with it. In fact, nothing is wrong with it. It is unusual, though. Study it, and think about it, but you still may not find anything odd. What is missing from it?

Last month's riddle:

A rope ladder hangs over the side of a docked ship and dips into the water. The rungs are 15.75" apart, all equally distanced. At low tide, two of the ladder's rungs are underwater. At high tide, which is exactly 3.5' above low tide, how many rungs will be underwater?

Last month's answer:

Although the tide rises three and a half feet, the ship also rises the same amount. So there will be no change in the number of rungs under water.

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A Look at Non-Fungible Tokens.

Non-fungible tokens, or NFTs, have been the recipient of the latest buzz. NFTs are digital files attached to blockchain codes. If you know anything about digital currencies, you're probably aware that these blockchain codes are what identifies a digital "coin" and makes it tradeable to those who accept that sort of payment. In this case, the code identifies the digital file as a unique item. This may be any sort of digital file from an image or a cartoon to a music or video file; even an email message like this one could be made into an NFT.¹

This is the difference between "fungible" and "non-fungible." If you trade one digital currency "coin" with another, they have the same value (despite having different blockchain codes). The same goes for regular currency. A dollar bill is worth the same as another dollar bill. That's "fungible." A "non-fungible" item would be a unique or rare item, which may have a different value. The difference would be akin to an original Picasso and a painting you bought at a thrift store; one is worth more than the other, and they both have values, but one painting does not have the same monetary value as the other painting where the art market is concerned. That's a "non-fungible" value.¹

Since digital items can be easily copied, doesn't that affect the value of the NFT? What if you just copied the image that the NFT was based on? In real-world terms, it's the blockchain code that offers the NFT its scarcity. This is the difference between owning the original Picasso painting and owning a print of the same work.¹

The NFT is often created at one of a handful of marketplaces that trade in these items. Many artists, from painters and musicians to comic book illustrators, have used these marketplaces to supplement their income. For instance, Star Trek actor William Shatner made a series of trading card-style NFTs, including one of his dental x-rays. Depending on the marketplace, these artists can benefit from not only the initial sale but, unlike many other creative works, they can earn residuals from the NFT's resale down the line.¹

However, like all collectibles, there is a risk. While the blockchain code might assure you that you are buying an "original" NFT, there's nothing to indicate that the token in question will gain or maintain any value. There's also a possibility that all of this is a high-tech tulip craze, and that today's NFTs will have a very disappointing value, if any, in the future.¹

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There are also many important legal, even philosophical, questions as yet unanswered by the NFT market, things that will no doubt be adjudicated in time.¹

Like any collectible, non-fungible item, there is a risk of using NFTs as an investment tool. While it's a fascinating topic, there's no way to know if these latest blockchain-coded offerings will have any staying power. Despite a slowly growing acceptance of digital currencies, it's important to remember that they, too, are not fully in the mainstream.¹

If you are interested in NFTs, please remember that these are relatively new items and the marketplace is evolving. NFTs can be adversely affected by a number of factors, including liquidity and regulatory developments. Our office can help you get more information, but we can not offer any guidance on NFTs.

A word to the wise: Don't let the fun of a hobby get in the way of the serious work involved with your financial strategy. However, as with any aspect of your financial life, I welcome you to talk with me about any items you may be curious about.

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CITATIONS ECONOMIC SECTION:

1. The Wall Street Journal, April 30, 2021
2. CNBC.com, April 2, 2021
3. CNBC.com, April 15, 2021
4. Reuters.com, April 16, 2021
5. FactSet.com, April 26, 2021
6. EarningsScout, April 30, 2021

CITATIONS FINANCIAL ARTICLE SECTION:

1. The Verge, March 11, 2021

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