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Cryptocurrencies: Are they a good investment?

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The recent meteoric rise in the price of cryptocurrencies like Bitcoin and Ether has been making waves around the investment community while provoking a wide range of reactions from business leaders, national governments and even celebrities. Cryptocurrencies have been circulating through parts of the global economy for several years beginning with the launch of Bitcoin in 2009. However, their legitimacy and long-term viability as a store of value and medium of exchange is the subject of ongoing debate. Underlying these virtual currencies is blockchain technology, which has often been touted as having the potential to “disrupt” commerce. Investors can no longer ignore this important development.

Cryptocurrencies are virtual, digital currencies that rely on sophisticated encryption techniques to allow highly secure transactions. They are pre-programmed to create additional units of the virtual currency at a declining rate for a period of time until a predetermined date is reached, after which no further units are to be created – this mechanism serves to protect against inflation. The technology behind these currencies is called a *blockchain*, also known as distributed ledger technology. A blockchain is a virtual, public ledger that records all transactions involving the currency in chronological order and is shared and continually authenticated by a vast network of computers within the network. Using cryptography, the system is designed to prevent human errors and fraudulent actions, eliminating the need for a costly intermediary such as a bank to validate each transaction.

There are numerous potential benefits for users of cryptocurrencies, such as a cheaper and faster transmission of funds, the avoidance of currency conversion costs for international transactions and transfers, and anonymity, which reduces the risk of identity theft. However, there are also a number of drawbacks. Improved anonymity has the unfortunate effect of attracting criminal activity. It also makes it difficult for governments to collect taxes. The potential for additional competing currencies and the lack of authority over their supply can significantly hinder the ability of central banks to conduct monetary policy effectively. Governments have been slow to act but given the large social implications of a wide proliferation of decentralized virtual currencies, their responses will likely be meaningful and there is little reason to believe that price stability of the virtual currencies will be among their highest priorities.

From an investor’s standpoint, cryptocurrencies like Bitcoin represent another asset class for us to analyze, scrutinize and consider for inclusion in the portfolios. While virtual currencies show great promise as a prominent medium of exchange for the future, there are still too many unknowns given their relatively short operational histories. At this time, they are best suited to speculators. To protect our portfolios from inflation, we see better value, far deeper markets and more stable fundamental underpinnings in real assets such as infrastructure, real estate and gold.

History shows that it is preferable to be on the side of the “disruptor” rather than the “disrupted.” On behalf of our investors, we will continue to monitor developments linked to the blockchain technology with open minds.

Combined top 15 equity holdings as of September 30, 2017 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Canadian Natural Resources	6. Alphabet Class A	11. AltaGas
2. Microsoft	7. Atco	12. Walgreens Boots Alliance
3. Apple	8. Wells Fargo	13. Toronto-Dominion Bank
4. Suncor Energy	9. SNC-Lavalin	14. Bank of Nova Scotia
5. UnitedHealth	10. Athene Holding	15. PrairieSky Royalty

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