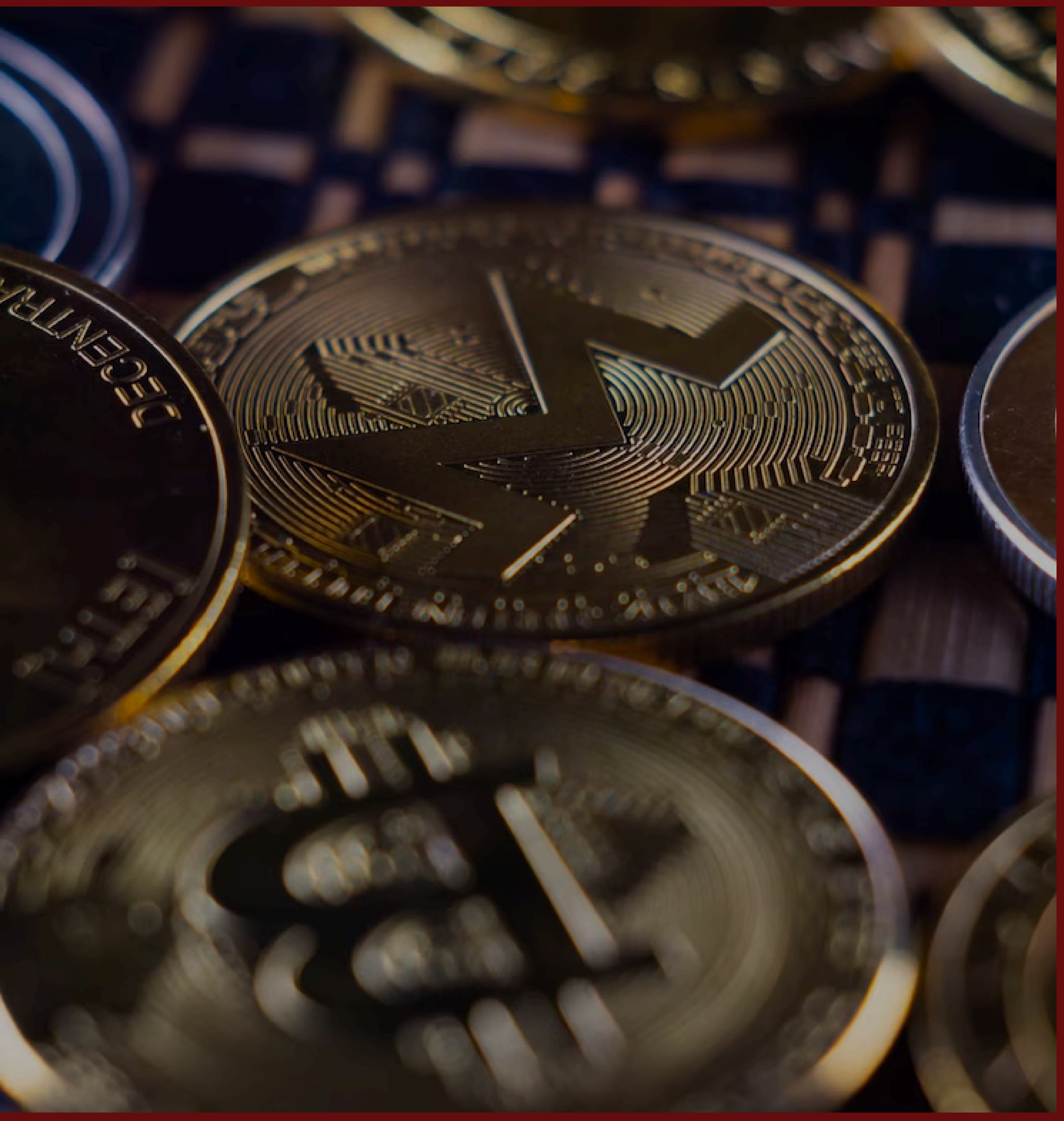
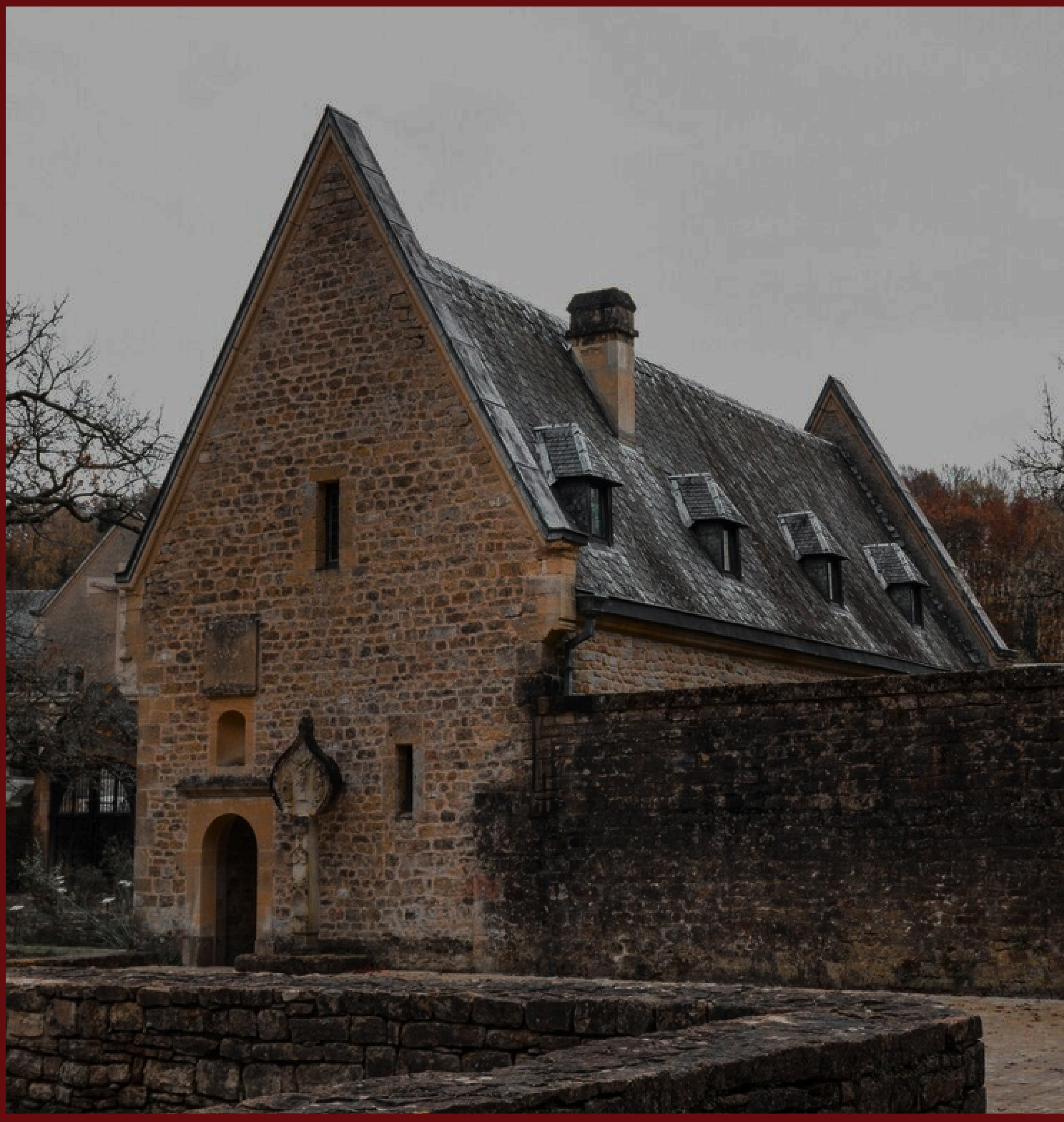



On Scarce Assets

Scarcity is a Key Determinant of Value





On Scarce Assets

Scarcity is a Key Determinant of Value

The purpose of this whitepaper is to explore various types of scarce assets. Not all assets fit within the four corners of an investment account statement. We have previously written about the types of publicly traded securities we seek, how we think about Exchange Traded Funds (ETFs), and about different types of alternative investment funds. There is, however, the remaining category of scarce assets to consider. As a determinant of value, scarcity can drive an asset's intrinsic value, especially when that asset does not offer a yield in the form of a dividend, interest coupon, or rent payment. Put another way, scarce assets are valuable because not everyone has them. There may be a very slow growing, fixed, or declining quantity in circulation globally. Alternatively, it may be an underappreciated asset that is easy to obtain now, and a speculation that it may be more appreciated later. Unlike stocks and bonds, scarce assets generally are illiquid, may have high transaction costs, and have meaningful carrying costs in the form of insurance, storage & custody fees, or real estate taxes. Scarce gold and art assets have served as portable stores of wealth throughout history and have even been the seeds with which families reconstituted their wealth in times when paper and "titled" assets were confiscated by a ruling regime.

We will explore five broad categories of scarce assets: Collectibles, Gold, Cryptocurrencies, Sports Teams, and Trophy Real Estate.

Collectibles

Automobiles

The collector car markets have experienced explosive growth in the past few decades. Movable works of art that can be admired and driven, the classic car market has become increasingly specialized, refined, and global. Collectors look for the best examples of a given model, with specific options, and matching serial numbers throughout the car. Certain buyers prefer cars that have been "preserved" rather than cars that have been "restored".

Art

A way to hold, enjoy, and display one's wealth since the Renaissance. A favorite asset of the Medici's and Popes alike, the value of fine art has stood the test of time. What constitutes fine art and especially valuable art from living artists is all in the eye of the buyer. Styles of art come in and out of favor with values shifting accordingly. Fraud and forgery are key risks.

Antiques, Furnishings, and Musical Instruments

An asset one can use and enjoy within the home, antiques are scarce assets that allow the owner to live today amid the past. Quality and originality are key, and values shift along with styles. Fine musical instruments such as those made by Stradivarius or Steinway are renowned for the unique sounds they can bring to life in the right hands. Collectors may loan instruments to talented musicians. Old world craftmanship and materials are impossible to replicate and truly scarce.

Wine & Spirits

A perishable asset, safe storage and patience are key to trading the best vintages.

Jewelry & Timepieces

Often deriving some of their value from precious metal content (gold, silver, and platinum primarily), jewelry is a functional way to enjoy a portable asset that has protected purchasing power over time. Metals are graded on their purity, while precious stones are valued based on the color, cut, clarity, and weight. Branded jewelry from likes of Cartier or Tiffany artisans can add additional value. Fine Timepieces are a piece of functional jewelry whose value has typically kept pace or exceeded inflation over time. The most collectible watches have values in the 6 or 7 figure range, while many tradable collectibles can be found in the 4 to 5 figure range. Tastes, preferences, and changes in style can mean that some jewelry pieces and watches may only be worth scrap value, while others may be prized for originality, condition, or who crafted it.

With all types of collectibles, it is important to remember the costs of storage, maintenance, and insurance when evaluating their investment merit.

The most "investment grade" examples of any collectible often achieve their fullest value at an open auction held by houses such as Sotheby's Christie's, Bonhams, or Antiquorum. Auctions deliver sellers the market value at that given moment, but those market values may be a function of who is in the room or on the phone when the hammer goes down. The deepest auctions for certain categories may only happen once per year. Auction sales also incur costs of anywhere from 10-20% of the value realized.

It is generally not advisable to start out collecting with the intent of making money. For those with the means, however, a collection of scarce assets that they enjoy may bring them both value in use and the potential for appreciation. Collectibles are very susceptible to swings in sentiment and prices as tastes and preferences shift. Fakes and fraud remain a key risk in collectible markets.

Investors may still benefit from the collectibles market through investments in specialty insurers, luxury goods companies, jewelers, watchmakers, and auction houses.

Gold

J.P. Morgan succinctly told Congress in 1912 that ***"Gold is money. Everything else is credit."*** This of course was at a time when dollars and most other major currencies were backed by a given amount of gold. President Richard Nixon "temporarily" suspended the convertibility of dollars into gold in 1974 among nation state members of the post war Bretton Woods order. While necessary to deal with the financial impacts of the twin wars in Vietnam and Johnson's war on poverty, it ushered in a now 50-year period of meaningfully declining fiat purchasing power in the US.

Gold as a store of value, unit of account, and means of exchange is not just a relic of American history but traces its way all the way back to the Lydian King Croesus who first minted gold and silver coins of differing values as far back as 561 BC. This innovation was a great leap forward from the barter system and the necessity to collect enough of those round shiny objects to pay one's taxes gave the whole exercise legitimacy and spurred the creation of the market for goods and services as we know it.

Gold is an inert metal. It does not offer a yield and left alone it does not replicate. Mining it from the earth is expensive, time consuming, and difficult. The non-investment uses of gold are limited primarily to jewelry and enhancing electrical conductivity.

Gold gains its value from its scarcity and its density, and in large part more than two millenniums of a history of being valuable.

Investors may access physical gold through coins and bullion and gold contracts and gold backed ETFs in commodity and securities markets. Gold mining, royalty, and streaming businesses allow an investor to be exposed to gold in the ground that has yet to be mined. Physical gold is a portable asset that can be held outside of the electronic financial system.

Investors in physical gold are well advised to insure their physical gold holdings against theft or destruction and seek out safe and diversified places for storage. While it is no longer used as a unit of account or means of exchange, gold's ability to serve as a store of value has stood the test of time.

Cryptocurrencies

Cryptocurrencies have much lower barriers to entry and greater portability than other types of scarce assets. A novel asset class, cryptocurrencies trace their history back to the launch of Bitcoin in January of 2009. The largest and most valuable cryptocurrency, Bitcoin attempts to "solve" the problem of profligate government spending debasing fiat currencies by offering a stateless, decentralized, fungible, token of which there are set to be no more than 21 million in circulation. In order to be a currency in the common sense, a three part test is evaluated:

1. is it a unit of account
2. is it means of exchange
3. is it store of value

Presently transactions in Bitcoin are infrequent and pricing assets in Bitcoins is more of a novelty than anything else. As far as a store of value, however, the emerging record of Bitcoin is hard to argue with. With greater acceptance of merely the concept of cryptocurrencies, the limited supply has helped fuel demand. One would be remiss not to appreciate the greater-fool element to a Bitcoin investment – you need someone to want it more than you did at the moment you seek to realize a profit or simply look for liquidity.

As with gold, "crypto miners" exist which utilize computing power to solve complex math problems to be able to unlock what remains of unmined Bitcoin. Unlike a gold miner who enjoys some benefit from the value of the gold in the ground on land that is owned or leased, Bitcoin miners face few barriers to entry other than equipment and location near a low-cost electric power source.

Of all types of scarce assets, cryptocurrencies are the youngest and their safe storage, custody, trading, and regulatory ecosystems continue to evolve.

It is becoming increasingly clear that cryptocurrencies are here to stay and are now accessible to a wider array of investors through the vehicle of an ETF. It is undoubtedly an area worth watching.

Sports Teams

There are:

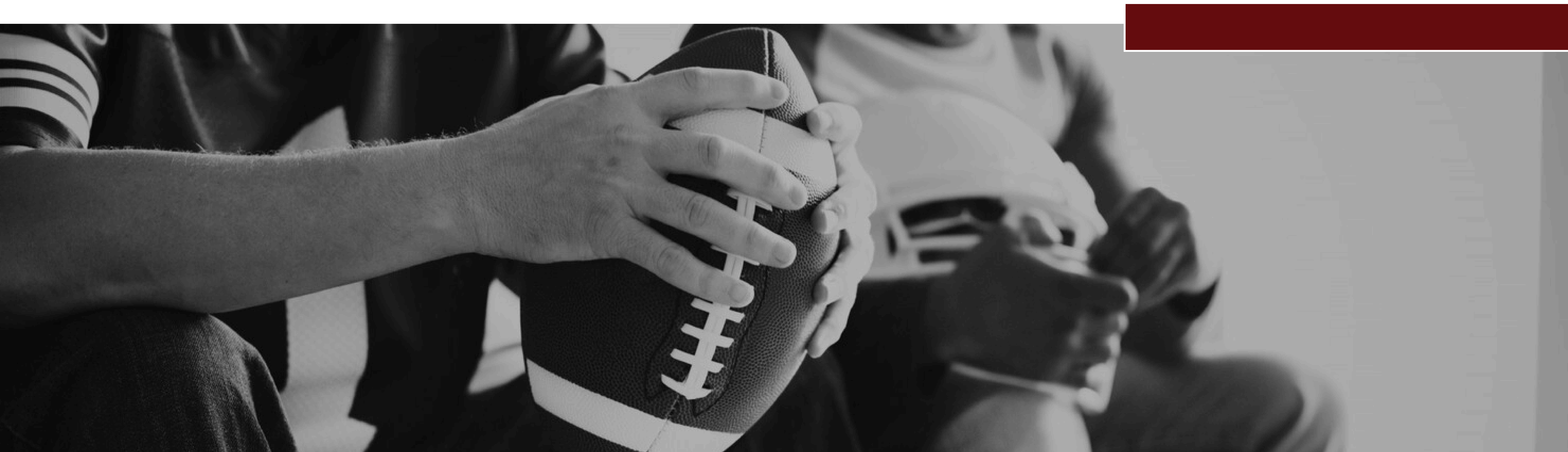
- 32 NFL American football teams
- 32 NHL hockey teams
- 30 MLB baseball teams
- 29 MLS soccer teams
- 30 NBA basketball teams
- 11 11 Formula One teams

Bound by a league or association that sets rules and divides territories, sports teams hold a monopoly on a popular type of "professional" entertainment within an area. The business benefits from strong brand names, merchandising, and media rights.

Unlike European soccer clubs, the American teams cannot find themselves "demoted" to a lesser league due to poor play. These veritable entertainment and media oligopolies have strict ownership guidelines and operational principles to protect the businesses.

For owners, there can be unique tax benefits from owning a sports team, associated land, and facilities. Recent rule changes have expanded the types of owners possible in some leagues. No longer just limited to groups of wealthy individuals, some leagues are now open to private equity investors.

There are limited opportunities within public markets to own shares in entities that own sports teams. These stocks tend to trade on a some of the parts basis – factoring in the real estate owned and recent comparable transactions for stakes in teams that have traded. At Hudson Value Partners, a publicly traded team is more likely to be considered within our ***special situations*** framework due to the sum of the parts valuation method and the limited opportunities for large scale reinvestment that are a hallmark of the franchise businesses we seek. The long-term trend for the value of sports teams has been higher as a growing population allows for more fans among a generally fixed number of teams. The legalization of sports gambling and the competition for broadcast rights has also enhanced the value of sports teams. Like other types of scarce assets, however, value realization typically comes only at the time of sale as free cash flow tends to be a much less important component of the valuation.



Trophy Real Estate Properties

Unlike income producing real estate (such as a stabilized multifamily portfolio) or opportunistic real estate (buy/improve/sell) trophy real estate properties are not income producing or bought with a view improve or reposition the property.

A large ocean front estate, sprawling penthouse, or vast tract of land is bought because there are very few of them. The buyer believes in the long-term desirability of the asset's location and features.

Trophy real estate purchases are rarely made in cash, the combination of leverage and long run desirability creates the buyer's chances for a money-making punt. In an inflationary environment, such an asset stands a chance of maintaining the owner's purchasing power as a store of value – so long as the wealthy buyer pool is not too severely diminished. Trophy real estate comes with "white elephant" risk – or put another way, when the owner tells the broker to sell it, the broker may reply, "To whom?"

The bigger the trophy, the higher the price tag, and the smaller the group of potential buyers the asset may trade among. Buying and selling real estate comes with brokerage commissions, and trophy properties come with king sized real estate taxes, insurance costs, and maintenance expenses which combine to create a high hurdle for a profitable ownership experience. Of course, the appeal of a country manor and sweeping master-of-the-universe view is undeniable – after all you cannot sleep in your stocks and bonds.

Important Disclosure Information

This whitepaper on Scarce Assets is intended ***for educational purposes only***. It is not a solicitation or recommendation to buy specific commodities, pieces of tangible or digital property, assets, or any certain investments.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Hudson Value Partners, LLC ("HVP"), or any non-investment related content, made reference to directly or indirectly in this whitepaper will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this whitepaper serves as the receipt of, or as a substitute for, personalized investment advice from HVP. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. HVP is neither a law firm nor a certified public accounting firm and no portion of the whitepaper content should be construed as legal or accounting advice. A copy of HVP's current written disclosure Brochure discussing our advisory services and fees is available for review upon request or at **https://adviserinfo.sec.gov/**.

Please Note: *HVP does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to HVP's web site or whitepaper or incorporated herein, and takes no responsibility for any such content. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly.*

Please Remember: *If you are a HVP client, please contact HVP, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating or revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.*

Securities offered by registered representatives through Private Client Services (PCS), Member FINRA/SIPC. Advisory products and services offered through Hudson Value Partners, LLC (HVP), a Registered Investment Advisor. PCS & HVP are unaffiliated entities.

177 MADISON AVENUE
1ST FLOOR
MORRISTOWN, NJ 07960

2875 SOUTH OCEAN BLVD
SUITE 200-26
PALM BEACH, FL 33480

115 MASON STREET
#1 - SUITE 3
GREENWICH, CT 06830

TOLL FREE
1-833-6HUDSON

WEB ADDRESS
hudsonvaluepartners.com

CHARTBOOK
hvpriskdashboard.com

X SOCIAL MEDIA
@HVP_Research

HUDSON VALUE PARTNERS