Bitcoin, Cryptocurrencies and Blockchain
A TECHNOLOGY AND FINANCIAL SERVICES SECTOR REPORT

October 17, 2019

ANALYST(S)
Logan Purk, CFA
David Heger, CFA

Edward Jones’ Policy on Cryptocurrency:

- We believe cryptocurrencies are highly speculative.
- Edward Jones does not offer a way to purchase or hold cryptocurrencies, or futures contracts on cryptocurrencies.
- Edward Jones does not offer a way to purchase cryptocurrency-related funds, ETFs or ETNs that own cryptocurrencies directly.
- Companies mentioned in this report:

Facebook (FB - $189.55; HOLD)

Prices and opinion ratings are as of market close on 10/16/19 and subject to change. Source: Reuters.

Edward Jones clients can access the full research report with full disclosures on any of the companies Edward Jones follows through the Account Access link on the Edward Jones website (www.edwardjones.com). Clients and others can also contact a local Edward Jones financial advisor, who can provide more information including a complete company opinion, or write to the Research Department, Edward Jones, 12555 Manchester Road; St. Louis, MO 63131.

Information about research distribution is available through the Investments & Services link on www.edwardjones.com.

Bitcoin is powered by a promising new technology, though many uncertainties remain

The meteoric rise in the price of bitcoin, which represents around half of the roughly $218 billion cryptocurrency market, dominated the headlines in 2017 and early 2018. But the price of bitcoin, and other cryptocurrencies, have been extremely volatile due to significant uncertainties such as long-term supply-and-demand dynamics, the impact of government policies, and the question of which cryptocurrency, if any, will survive over time. In addition, there are other risks unique to cryptocurrencies, such as loss due to failed storage devices, hacked exchanges, sending funds to the wrong digital address, or, simply, forgotten passwords. **We believe prices for cryptocurrencies will remain extremely volatile for the foreseeable future, and we view any investment in cryptocurrencies as highly speculative at this time.**

Blockchain facilitates online transactions

Bitcoin is the product of a technology called blockchain. The original intent of blockchain was to enable peer-to-peer digital payments that do not require a trusted third party, such as a financial institution. The problem blockchain solves is assuring the recipient of a digital asset that the asset is wholly transferred (as opposed to copied and then transferred), thereby eliminating the possibility of digital double-spending. Blockchain thus removes the need for a third party to verify peer-to-peer digital transactions.

Bitcoin traced previous bubble patterns

After rising over 1,200% in 2017, bitcoin has fallen by almost one-third since its peak. Bitcoin’s rise in 2017 far surpassed previous bubble peaks, such as the dot-com bubble of the late 1990s and the U.S. housing market bubble of the late 2000s. We believe bitcoin’s subsequent price volatility in 2018 and 2019 will continue for the foreseeable future given the significant risks associated with cryptocurrencies.

Risks to investing in bitcoin and other cryptocurrencies

Unlike an investment in a stock or mutual fund, there are no underlying fundamentals (cash flows, profits, etc.) to support the valuation of any given cryptocurrency. The uncertainty this creates has led to extreme volatility in cryptocurrencies such as bitcoin, ethereum and litecoin. Other risks include price manipulation by unknown market participants, the potential for government interference, and competition from other cryptocurrencies. The SEC and other regulators have recently issued letters warning investors of these risks.
A trust protocol for online transactions

On January 3, 2009, a person (or group of persons) under the pseudonym Satoshi Nakamoto launched the bitcoin blockchain computer network. The original design of the network was to enable peer-to-peer digital payments that do not require a trusted third party, such as a payment network or financial institution. The problem it solves is assuring the recipient of digital funds that the funds are wholly transferred (as opposed to copied and then transferred), and thereby eliminating the possibility of digital double-spending. Thus, blockchain removes the need for a third party to verify peer-to-peer digital transactions.

Blockchain itself has many potential applications

By removing the need for a central authority to verify online transactions, blockchain allows for the exchange of digital value directly and securely. Thus, blockchain technology has many potential applications, including 1) regulatory recordkeeping of any sort (health history, land title, etc.), 2) financial transactions or transfers of value (payments, loans, etc.), 3) personal control of online identity, 4) supply-chain optimization, and 5) consumer-royalty programs.

Figure 1. Bitcoin price volatility

[Graph showing Bitcoin price volatility and Nasdaq Composite Index]

Sources: CoinDesk.com, FactSet, Edward Jones. The Nasdaq Composite Index is made up of all the stocks that trade on the Nasdaq stock exchange. It is capitalization-weighted, meaning each company's weighting is proportionate to its market value, and it is heavily weighted in technology and Internet stocks. Price as of September 30.

Blockchain mechanics (how it actually works)

Blockchain is a digital ledger, or record, of transactions managed by a decentralized network of computers. Each computer on the network has a copy of the ledger. In order to make a ledger entry, a special type of computer (“miner”) must solve a mathematical puzzle and, in doing so, expend energy in the form of electricity. For a set of ledger entries (“block”) to be successfully added to the blockchain, all computers on the network must agree that the entries are accurate, which they are able to do because they each have a copy of the ledger. If they all agree, then the block will be added, and the miner is rewarded in the form of bitcoin. If not, the miner has expended useless energy. In this way, miners are incentivized to add valid transactions to the ledger, removing the need for a central trust authority.

Risks to investing in cryptocurrencies

While blockchain solves an important technology problem, the value of any given cryptocurrency remains highly uncertain. Cryptocurrencies such as bitcoin, ethereum and litecoin have all exhibited significant price fluctuations due to these high levels of uncertainty. In addition to price risk, there are other risks to investing in cryptocurrencies, such as loss of the device storing the digital asset, potential for government interference, competition from other cryptocurrencies, and lack of historical track record. Also, cryptocurrencies are not common stocks of companies and do not trade on stock exchanges. Edward Jones does not offer a way to purchase or hold cryptocurrencies, or future contracts on cryptocurrencies. It's also important to note that money launderers and other criminal organizations often use cryptocurrency to launder illicit funds. Finally, each cryptocurrency is unique and claims to offer some sort of service or utility to the market. However, not all, if any, will be useful or valuable in the future. Unlike an investment in a stock or mutual fund, there are no underlying fundamentals (cash flows, profits, tangible assets, etc.) to support the valuation.

Be Aware of Companies Taking Advantage

Several small publicly traded companies have recently rebranded their businesses to take advantage of the growing interest in cryptocurrency, even though their actual underlying business strategies have little or nothing to do with blockchain technology or cryptocurrencies.

Facebook Announces Libra Cryptocurrency

Facebook announced that it has formed a new subsidiary, Calibra, which has developed a blockchain-based cryptocurrency called Libra. The Libra electronic currency will not be controlled by Facebook, but will be run by the nonprofit Libra Association that has been formed by Facebook, along with 27 other companies and organizations.
including Visa, Mastercard, Paypal and eBay. The Libra will be backed by bank deposits and government securities to help reduce volatility in the cryptocurrency’s value. The Calibra subsidiary will operate a digital wallet in which users can store their Libra currency and make payments electronically, both online and in physical stores. Calibra will be operated separately from Facebook’s other businesses, and data related to a user's digital wallet will not be shared with Facebook’s other applications unless authorized by the user. Recently, Mastercard, Paypal and Visa have all signaled that their interest in participating in Libra is declining due to the overall challenges of starting a new currency.

What is Edward Jones’ guidance?

While we believe blockchain technology has significant promise, we view any investments in cryptocurrencies as highly speculative. We recommend following time-tested investment principles and avoid letting the "fear of missing out" impact your long-term investment strategy.

Please see the full opinion of Facebook (FB) for additional information, including valuation and risks.

Required Research Disclosures

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Logan Purk, CFA; David Heger, CFA

Analysts receive compensation that is derived from revenues of the firm as a whole which include, but are not limited to, investment banking revenue.

Buy (B) - We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers.
Hold (H) - We believe the stock is fairly valued and total return potential is about average over the next 3-5 years compared with industry peers or a special situation exists, such as a merger, that warrants no action.
Sell (S) - We believe the stock is overvalued and total return potential is below average over the next 3-5 years compared with industry peers. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain. FY1 - For informational purposes only; factual, no opinion.

The table below lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months. As of: October 17, 2019

<table>
<thead>
<tr>
<th></th>
<th>BUY</th>
<th>HOLD</th>
<th>SELL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>46%</td>
<td>51%</td>
<td>3%</td>
</tr>
<tr>
<td>Investment Banking Services</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Other Disclosures

All investment decisions need to take into consideration individuals’ unique circumstances such as risk tolerance, taxes, asset allocation and diversification.

It is the policy of Edward Jones that analysts or their associates are not permitted to have an ownership position in the companies they follow directly or through derivatives.

This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.

In general, Edward Jones analysts do not view the material operations of the issuer.

Diversification does not guarantee a profit or protect against loss in declining markets.

Special risks are inherent to international investing including those related to currency fluctuations, foreign political and economic events.

Dividends can be increased, decreased or eliminated at any time without notice.

An index is not managed and is unavailable for direct investment.

U.S. only: Edward Jones - Member SIPC
3-Year Rating and Price History for: FACEBOOK (FB.O) as of 10/16/2019

Source: Reuters