

current PERSPECTIVES

Bitcoin and Blockchain Update

Often there's one particular thing that captures imaginations and creates frenzy around the holidays. Usually it's the latest must-have children's toy, but this year people have been captivated by something more unusual and less tangible: Bitcoin.

Bitcoin is a digital currency underpinned by a technology known as blockchain. Bitcoins are created when computers solve complex algorithms related to Bitcoin's public ledger, and currently there are approximately 17 million in circulation. Bitcoin's price is extremely volatile and has risen sharply recently, which has generated widespread interest and excitement.

At TD Asset Management Inc. (TDAM), we do not invest in Bitcoin as it does not align with our investment philosophy. We support investing in companies with solid balance sheets and strong financial performance. We seek to make long-term investments in businesses that have sustainable competitive advantages and consistently generate free cash flow. Free cash flow is key to potential growth because companies may reinvest it in their businesses, pursue mergers and acquisitions opportunities or return capital to shareholders in the form of dividends or share buybacks. Bitcoin does not generate sustainable free cash flow. In addition, it's subject to extreme speculation, which can result in excessive volatility and does not fit with TDAM's comprehensive risk management discipline.

However, we are paying very close attention to Bitcoin's underlying technology, the distributed ledger known as blockchain. A blockchain is a public ledger of all transactions that have occurred. This technology could be relevant to many businesses and, over time, has the potential to create significant efficiencies. For example, blockchain could improve clearing and settlement processes across a variety of financial institutions, including banks, asset managers and insurers. It also has the potential to accelerate collaboration across the health care community without compromising the integrity and security of confidential data.

So while we do not invest in Bitcoin, we are not ignoring the phenomenon. Instead, we are focused on blockchain and its potential to help high quality companies expand their margins and grow their free cash flow. ■

Bruce Cooper, CFA
Chief Executive Officer & Chief Investment Officer,
TD Asset Management
Chair, TD Wealth Asset Allocation Committee

 [@BruceCooper_TD](https://twitter.com/BruceCooper_TD)





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