



TFA

Monthly Newsletter

January 2023

IN THE NEWS

The Collapse of FTX: What Indian Country Can Learn from the Failed Crypto Trading Exchange

By William M. Crader, CFA

Yearly Outlook: A quick note on the single biggest issue affecting tribal finance . . . rising interest rates. Since the beginning of last year, for many tribal borrowers rates have effectively increased by two times or more, which translates into a doubling of interest expense. This isn't necessarily a cause for panic, but reinforces the importance of a debt management strategy. It also becomes imperative to assess all lending options as non-commercial lending options become relatively more attractive as floating-rate loans become more expensive. Now back to our regularly scheduled program:

In September of 2022, venture capital stalwart Sequoia Capital, with

notable investments in companies ranging from Apple to Zoom, published [a story](#) about Sam Bankman-Fried, the founder of cryptocurrency trading platform, FTX. The story raved about Bankman-Fried's application of "effective altruism" to "get filthy rich, for charity's sake." The article goes on to describe a Zoom meeting between Bankman-Fried and Sequoia's partners, with Sequoia's partners raving "I LOVE THIS FOUNDER" and similar enthusiastic compliments all while Bankman-Fried is playing a video game. A November 11, 2022 New York Times [article](#) lists multiple notable investment houses that contributed hundreds of millions of dollars to FTX's balance sheet (nearly \$2 billion in

A group of 20 youth leaders got to attend the White House Tribal Nations Summit this year

12/2/22 – indiancountrytoday.com

What the new Congress means for Indian Country: There will be five Indigenous representatives with voting power in the Senate and House, but it's less than those elected in 2020

12/5/22 – indiancountrytoday.com

What inflation? 42% of casino goers are playing the same amount as before

12/17/22 – playusa.com

Emergence of tribes one of the big 2022 Nevada gaming stories

12/27/22 – reviewjournal.com

ICT will be watching ICWA, Congress, climate change and the return of the first Indigenous female astronaut in the coming year

1/9/23 – indiancountrytoday.com

NAFOA: 5 Things You Need to Know this Week

1/9/23 – indianz.com

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total) all under the auspices of Bankman-Fried's vision to create the ultimate trading exchange. In addition to notable venture capital firms, FTX garnered the support of numerous celebrities, including Shark Tank's Kevin O'Leary.

The point in highlighting FTX's failure and those involved in investing and promoting FTX is not to sling mud. Instead, it is for Indian Country to take note of two contrasting but related concepts. First, it's okay to make bad investments, i.e. for an investment to fail. The second concept relates to evaluating investment opportunities (due diligence) and even the most experienced investors can be duped into making a bad investment.

Regarding making bad investments, there are several concepts highlighted by FTX's failure. By his own admission (even without fraud) FTX was always considered a high-risk investment (Bankman-Fried himself noted a 20% chance of success for FTX). High-risk, high-return investments merits consideration but should be taken into context of a tribe's overall portfo-

lio of investable assets. Said differently: even though Sequoia's lost it's [\\$210 million investment in FTX](#), no one is concerned about Sequoia Capital remaining a viable investment firm. Likewise, a tribe should be open to high-risk, high-return investments assuming losing that investment would not be detrimental to the tribe's overall financial health. Although investments in FTX are considered a total loss now, important lessons will be learned and eventually applied to future investments in the same industry (see [Webvan circa 2001](#)).

The second concept involves due diligence of investment opportunities. FTX is not the first "sure-thing" to go bust and it will not be the last. However, it does highlight the impact of following trends and having FOMO ("fear of missing out") driving investment decision-making versus staying disciplined

Happy New Year!

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and sticking to a well-defined investment policy. Cryptocurrencies in concept may have a place in this world; however, the meteoric rise in valuation associated with cryptocurrencies should have given pause for thought by just applying common sense. Of course, the irony about common sense is it is not so common (Full credit to Voltaire: On dit quelquefois: "Le sens commun est fort rare.").

TFA is at the ready to assist tribes with the evaluation of alternative investments. Please contact us to setup a time to discuss your tribe's economic diversification goals and investment opportunities.

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