

Weekly Report



Selected Market News

Economic jobs growth is expected to slow down this year, in line with David Cameron's plan to improve basic pay. However, it is predicted that basic pay will increase by 2% this year but the unemployment rate is to hold at 7.1%, forcing the BOE to detach itself from its plan to increase the base rate when unemployment reaches 7%. Furthermore, the female employment rate increased to 67.2%, which is the highest since records began in 1971, with average earnings up 1.1% compared to 2013, with an increase of 2.2%.

RBS, the 81% owned government bank, is set to cut 30,000 jobs to reduce its workforce to 90,000 in a vast shake-up. This is in order to focus on 3 key groups: retail customers, small business and larger corporates. This is to align the company's aspirations with Chief Executive Ross McEwan's - as he stated that it is his aspiration not to run the biggest bank, but to run the best bank in UK.

January IPO's are at the highest since 1997, as Pets at Home look to join the hype. The valuation of the UK's biggest pet product retailer is £1.5 billion including debt, as it plans to raise £257million to pay down debts. M&A for technology companies in the opening months of 2014 has been at its busiest since 2000, with \$78bn having been spent. Facebook announced plans to buy WhatsApp for \$19billion, with \$12bn in stock, \$4bn in cash, and \$3bn restricted shares. WhatsApp is a messaging app advert, which is free for a year then is 99 cents from then on. The news of the acquisition boosted Facebook's share price by 2.3% to close at \$69.63.

With Ukraine on the brink of civil war after police and protestors are locked in a stand-off that has resulted in 70 people dead. The Ukraine president, Viktor Yanukovich, says he has reached a deal with the opposition to end the crisis, after all-night talks mediated by three EU foreign ministers over imposing sanctions including visa bans and asset freezes.

What's up with WhatsApp?

This week Facebook bought WhatsApp, the instant messaging mobile application company for a staggering \$19 billion dollars (approximately £11.42bn). Given that the firm was only founded five years ago, this is considered quite high and adds to growing scepticism surrounding the technology industry concerning over-valued companies, similar to that occurring before the dot-com crash of 2000.

On the other hand WhatsApp's valuation can be justified by the fact that it is the world's fastest growing social network, as 1 million new users join the network's 450 million user base every single day, dwarfing that of Facebook at its peak. In addition it's at the forefront of the smartphone-based messaging mobile apps that are sweeping the world. The others within this small group are mostly regional competitors. These include the Japan's Line that boasts 340 million users and China's WeChat with 272 million active users. These start-ups took full advantage of the popularity of data plans that emerged due to the success of smart phones in 2008.

So what exactly is WhatsApp?

It's an application available on all the major mobile phone platforms such as Apple and Android, that allows users to send unlimited text, audio, video and picture messages to other users around the world over the internet, without incurring expensive carrier charges. Essentially WhatsApp replaces traditional text messaging and users of the service need no login and only a phone number is required. To date, WhatsApp has never engaged in any advertising campaigns, relying solely on word of mouth for user growth. Currently WhatsApp's main income source is subscription fees, which it annually charges to users at £0.69 after a yearlong free service. The application's unique selling point is that it offers the user the ability to engage in group conversations and is

deemed as a lot more hassle-free than their Facebook or Twitter alternatives. The founder, Yan Koum, has avoided the introduction of advertising onto the platform, as he believes it will curb users away. However, some users are doubtful whether or not this approach will continue due to Facebook's increasing reliance on advertising from their core elements. On the other hand, one of the service's disadvantages is that you need the Internet to use it, unlike text messages that rely entirely on carriers. However this is not too problematic, as users in developed nations live and work within areas of strong signals, with most in 3G enabled areas.

Recently, Facebook attempted to acquire Snapchat in November of last year for a \$3 Billion cash offer, even though the firm continuously made losses. This successful deal represents Facebook's biggest acquisition to date and the highest startup buyout in history. Surprisingly the takeover deal of WhatsApp was only initiated 11 days before the announcement and was completed on Valentine's Day with the assistance of Morgan Stanley and Allen and Co. Initially the market reacted negatively, and following the deal Facebook shares fell by 5%, before quickly recovering slightly. The deal was at £11.4bn, which represents approximately 10% of Facebook's market capitalization. The deal comprises of £2.4bn in cash, £7.18bn in Facebook shares and £1.8bn in restricted stock to WhatsApp employees, an incentive for them to stay with the firm. Facebook's founder Mark Zuckerberg said "I've also known Jan for a long time, and I know that we both share the vision of making the world more open and connected."

Why pay so much?

In acquiring the messaging service, Facebook will get access to WhatsApp's young, teenage audience, which it has been losing, according to Pew Research Centre. The paper concluded teenagers have been maintaining lower profiles on Facebook and instead are spending more of their time on WhatsApp and Snapchat. This buyout may help Facebook regain their original target audience back to their social network of 757 million active daily users.

What's next?

However, WhatsApp users will look elsewhere if Facebook ownership means messaging services stop working, which occurred on 22 February for 3 hours, only 3 days after the announcement. In the meantime, Jan Koum will be joining Facebook's board after a job rejection from Facebook only a few years ago. "We're excited and honoured to partner with Mark and Facebook as we continue to bring our product to more people around the world." Koum has insisted that WhatsApp will remain in their Mountain View Headquarters in California and will remain independent from Facebook's existing messaging service.

Only time will tell whether Facebook's huge investment in WhatsApp will actually pay off, as WhatsApp's hostility towards advertising dramatically reduces the firm's possible income streams. Yet one certainty is WhatsApp's incredible growth potential – current projections estimating that it will reach a 1 billion-user landmark by 2016.

Bitcoin: Finding Arbitrages in the Cracks

In the Weekly Report's Week 3 publication we had a great update of the fate of bitcoin, questioning if it is a bubble, and whether it holds any intrinsic value. Unlike fiat currencies there is certainly no underlying security or gold standard behind bitcoin to maintain the giddy heights it has reached. Yet it is clear that, for the moment at least, it can be ascribed some speculative value. In growing 8000% in the last two years, there is a wealth of amateur investors who are late to the party and eager to get in on the action, and the price can be said to rise and fall as these come and go. But Alex picked up on a valuable point: the anonymity of the currency has value in itself. Estimates of illicit activity as a portion of global GDP centre around the 3.2% mark, and while estimates range wildly from 0.6 to 5.5% of global production, this figure of \$2.2 trillion for the black market – which finds bitcoin particularly attractive – cannot be ignored. Its value as a laundering mechanism for this enormous share of global activity could be enough in theory to keep the bubble airborne, even if at a lower value.

There are now a plethora of crypto-currencies out there, including the infamous Coinye, which recently changed its name from 'Coinye West' to avoid a legal battle (but maintains it is a serious digital currency...really). These crypto-currencies offer the same service, but bitcoin has the first-mover advantage, making up well over 50% of the value of all digital currencies. But the combination of speculation, lawsuits and association with the black market means the price maintains an enormous degree of instability. Bitcoin has lost 40% of its value since Alex's

report, and many say that smart investors wouldn't touch it with a barge pole. But with so many exchanges in different countries and currencies, so much speculation and fluctuation, what's the smarter thing to do? Find arbitrages in the ether.

On examining Bitcoin last week, a purchase could be made at £550 for 1 coin from a European exchange. Transfer this over to a Japanese based one, and it was worth \$986. Of course there are fees to take account of, and a small fluctuation between USD and GBP to consider, but all converted back into sterling, a 7% profit could be realised in one day. To add to the story, this is a proven strategy, and not merely speculative.

A 7% gain would have the arbitrageurs in JPMorgan foaming at the mouth, and as one that is largely ignored by investing professionals it's in prime place for the smart casual investor to take full advantage of. And if you think a 7% gain was significant, trading long and short positions on some of the more obscure exchanges can obtain multiple times this result!

As a note to leave on, it's not all plain sailing, thefts in bitcoin have increased by 50% in 2014; it seems the black market can't wait to get its hands on the stuff. And if you feel you've missed out on an opportunity, you can't be as bad as James Howell, a British investor who lost his £4m worth of bitcoin when he threw his old hard drive in the bin. So trading on the price of bitcoin in any way...certainly not. Trading between the exchanges and picking up the profits...you'd be silly not to.

Fund's Results

Holdings	P&L	Performance (%)	-1,50%
Viscofan	-8,56%	Performance (CASH)	-£192,78
Diageo	-0,42%	Invested Amount	£3 558,11
Morgan Stanley	0,44%	Cash Ammount	£6 411,89
Honda	-2,90%	NAV	£9 850,22
Rolls Royce	-17,90%		
William Hill	3,35%		



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