Cashless Consumers: The New Normal

What’s in your wallet? Most likely there’s a bunch of plastic, but there’s probably very little cash.

How did you pay for the last thing you bought? The odds are high it wasn’t with paper or coins.

If you’re like most Americans, you don’t carry much physical money. But you always have a credit and/or a debit card with you.

It’s funny because paper money is a newer innovation than you might think. It first emerged in 11th-century China. But it wasn’t widely used in Europe until the mid-1800s.

Here in the U.S., Alexander Hamilton introduced paper money in 1791, when he established the Bank of the United States to create a system of credit for the new federal government.

Now, the role of cash is rapidly shrinking. That’s thanks to technology that makes it possible for consumers to become largely cashless.

In fact, debit and credit cards are already the payment choice for the majority of Americans.

The Death of Physical Money and the Rise of Digital Payments

In 2013, Mastercard Inc. (NYSE: MA) said that 85% of the world’s transactions were being completed with physical money.

Federal Reserve figures paint a different picture, with 32% of retail purchases paid for in cash in 2015, down from 40% in 2012. And Pew Research data from 2020 show that, in a typical week, 29% of Americans make absolutely zero purchases using cash.

The numbers may vary, but the trend indicates they’ll continue to shrink.

The World Payments Report forecast that non-cash payments will continue to increase at a compound annual growth rate of 12.5%.
growth rate of 12% through 2023. And it predicts annual non-cash transactions will surpass 1 trillion by 2024.

Heck, Deutsche Bank (NYSE: DB) CEO John Cryan went so far as to say cash won’t even exist in 10 years. Businesses love digital payments. So do consumers.

Sweetgreen, a privately held fast-casual restaurant chain, timed the transaction times for digital versus cash payments and found that cashless payments were completed 15% faster than paper money transactions.

Sweetgreen can now operate with fewer cashiers, a move that will become even more important in the $15 minimum wage world we’ll soon live in.

At the root of the relentless gravitation toward cashless payments is the rise of e-commerce and the convenience of mobile phone payment apps. But personal safety, specifically avoiding germs, is also a key factor.

The coronavirus pandemic is accelerating the adoption of digital payments. Consumers are using cards and contactless payment apps because they don’t want to have to touch anything.

“Going cashless” is also becoming easier because just about every small mom-and-pop business now accepts credit/debit cards too.

I’ve been able to buy lunch at a cool neighborhood food truck, pay for a haircut at my old-school barbershop and settle up with the crusty old mechanic who’s been fixing my cars for decades.

The fact that these micro-businesses accept credit/debit cards amazes me. You see, I’ve started several businesses, and one of the most critical but frustrating aspects of the process is setting up a credit/debit card processing tool.

The banking industry is skeptical of new businesses, and it makes them jump through all kinds of hoops before approving them to process credit/debit payments.

That’s why the traditional plastic payment devices — credit cards and debit cards — are facing a new army of payment competition from mobile phone payment services, such as PayPal Holdings, Inc. (Nasdaq: PYPL), Apple Pay and Google Wallet.

**This Is Creative Destruction**

One company in particular has made it dramatically easier to open a business and to begin accepting credit/debit card payments.

In fact, that food truck, my barber and my mechanic were all customers of this innovative company. Its platform supports the formation of all kinds of new businesses.

New businesses don’t need to beg a dozen banks, jump through a hundred hoops and buy expensive hardware.

All it requires is a low-cost, easy-to-use card reader and an internet-enabled phone or tablet. You’ve probably seen its card readers in action and might have already used it.

This company has dramatically improved the speed and ease of starting a new business and lowered the cost of accepting plastic. That’s disruptive, and it’s also part of the recipe for long-term dominance — especially given the meteoric rise of electronic transactions.

Here’s how Capgemini Research framed the trend:

> Non-cash payments have increased in volume due to the rise in adoption of digital payment services across all market segments. Curiously, though the number of transactions continues to rise at a rapid rate, the average USD value per transaction has decreased slightly, as digital establishes itself as a growing rival to cash for low-cost purchases.

If the World Payment Report is even remotely accurate, grabbing even a small part of those 1 trillion (and growing) transactions will translate into a mountain of money.

And Square Inc. (NYSE: SQ) is poised to grab a very profitable chunk of it.
Before the pandemic hit, I traveled to Sweden — not to see the Northern Lights or eat lutefisk, but to learn more about the Elongated Country’s swift transformation into a near-cashless society.

In fact, Sweden has been called the most cashless society on the planet, and I was eager to test that claim.

So, in an unusual step for me, I didn’t exchange any U.S. dollars for Swedish krona when I was preparing for my trip. Nor did I make any cash withdrawals.

With nothing but my debit card and my credit card, I set out to see if I could go for four days without any physical money.

You know what? It was a piece of cake!

Indeed, I saw dozens of “no cash accepted” signs. The locals say those are becoming an increasingly common sight in stores, museums and restaurants.

Even more amazing is that most of the banks in Sweden refused to accept cash.

Think about that: The banks won’t take your cash. THE BANKS!

Square: Making a Mint One Swipe at a Time

“Absolutely, we should be scared shitless about that.”
— JPMorgan Chase & Co. CEO Jamie Dimon, Jan. 15, 2021

JPMorgan Chase & Co. (NYSE: JPM) CEO Jamie Dimon, perhaps the best bank manager in the world, was talking about new, non-traditional payment processing competition from companies like PayPal, Amazon.com Inc. (Nasdaq: AMZN), Apple Inc. (Nasdaq: AAPL) and Alphabet Inc. (Nasdaq: GOOGL), collectively referred to as “fintech.”

“Fintech” is short for “financial technology.”

We’re using more and more fintech solutions to pay for everything from our daily lattes to our monthly mobile phone bill. We’re even using them to buy and sell shares of stock.

The proliferation of these digital payment methods has Jamie Dimon worried.

The shift to a cashless society has been underway for a while now. But the pandemic accelerated this movement. Like our mothers told us, “Cash is dirty.” And cash can’t change hands at a distance of six feet.

Digital payments will play an even more prominent role going forward from the current crisis, and one company is building a gigantic digital payment ecosystem that’s made it one of the leaders of the fintech revolution.

That’s Square Inc.

Square is in a prime position to benefit from a post-pandemic world, enjoying a long runway for growth for its Cash App.

Cash App enables users to receive and send money, purchase items as well as invest in Bitcoin and stocks. This versatility made Cash App one of the most popular digital payments solutions for individuals and small businesses.

Its popularity is growing like mad; the number of daily active users almost doubled last year and now stands at 30 million customers.

Square’s Innovative History

Most people saw the iPhone, launched in 2007, as the newest must-have piece of consumer technology. Square co-founder, Jack Dorsey, instead saw a mobile processor of credit card transactions.

He started Square in 2009 to do exactly that.

It started with a plastic dongle that small merchants could plug into a smartphone’s headphone jack to accept card payments when the alternative was
a painful and lengthy application process with a high rejection rate and unsavory transaction fees.

The first problem the company solved was making it easier for stores to accept credit cards at the point of sale.

What separates Square from other point-of-sale systems is that it doesn’t charge a monthly fee. For any small business, that’s a big deal.

Square charges a flat fee per transaction, which includes the credit/debit card company fee, the consumer’s bank fee and the merchant account processor fee.

Here’s the breakdown:

In-store transactions: 2.75% flat rate

Online transactions: 2.9% + 30 cents per transaction

The simple payment system is actually quite revolutionary because there are no monthly minimums, nor are there fixed monthly charges.

Of course, the more transactions Square processes, the more it makes. Therein lies the reason that you want to own Square shares.

**Triple-Digit Growth**

Business is really booming.

For the third quarter of 2020, Square reported a 574% year-over-year increase in revenue. That’s no one-quarter wonder; management has posted triple-digit revenue growth the last three quarters in a row.

Those growth numbers are impressive. But Square currently captures less than 3% of the $26 billion annual U.S. credit/debit card processing market, so it’s only scratched the surface of its profit potential.

**The Crypto Kicker**

Cryptocurrency, mainly Bitcoin, has been on fire lately. Square is a backdoor play on this red-hot market.

Square has its own crypto trading platform, where users can buy and sell Bitcoin. And people are doing so in droves; during its most recently reported period, Square pulled in $1.63 billion of crypto revenue.

Plus, Square converted $50 million of its balance-sheet cash into 4,709 Bitcoins in October 2020 at approximately $10,600 each. Through late February, that investment had quadrupled in value.

Square, one of the biggest disruptors in the payment processing industry, has one of the brightest futures in the fintech world.

**Using 5% of the funds you’ve allocated to the Disruptors & Dominators model portfolio, buy Square Inc. (NYSE: SQ) at the market.**

**The Explosion of Internet Traffic**

There are 7 billion people on Earth, and 5 billion of them have mobile phones.

Sometimes it seems like their noses are glued to those screens, their eyes locked on video after video ...

Take a guess: How much time do you think we spend on YouTube every day?
Here’s the answer: We watch more than 1 billion hours of that stuff.

Source: DuckDuckGo

And that doesn’t include time spent with video-streaming competitors like Netflix Inc. (Nasdaq: NFLX), Facebook Inc. (Nasdaq: FB), Amazon.com and Hulu.

Sticky content like streaming video — as well as Big Data, the cloud, the Internet of Things (IoT) and social media — is driving an explosion of internet traffic.

Streaming video already consumes 60% of internet traffic but is growing at double-digit annual rates.

And the Internet of Things is in its infancy. The IoT is the Wi-Fi interconnection of everyday objects to the internet, enabling devices to send/receive data.

There’s a lot of data zipping around and being created on the internet already.

Now, consider that internet penetration rates are still low in developing markets like China and India. But raw user numbers are growing by tens of millions each month.

That’s why I believe the most rapid growth of all is going to be the storage of all that data.

Source: Libelium

According to International Business Machines Corp. (NYSE: IBM), the world is creating 2.5 quintillion bytes of data per day. That’s the equivalent of about half a billion HD movie downloads.

And demand for storage is growing at more than double the rate of internet traffic, more than 50% a year recently.

How do you store it?

For many companies, the cost of data storage is becoming one of the fastest-growing parts of its IT budget.

There are many different functions and at least as many players involved in the digital data food chain. The best way to profit is to invest in storage-related real estate.

I’m talking about data centers, the behind-the-scenes backbone of the internet.

Source: m.eet.com
Data centers have multiple back-up power sources as well as multiple back-up internet connections.

These are the reasons why even technological behemoths — like International Business Machines, Facebook and AT&T Inc. (NYSE: T) — outsource their data storage to a company I recommend this month.

**Digital Realty Trust Inc. (NYSE: DLR)** is perfectly positioned to profit from the exploding demand for data storage, and I expect it to deliver strong returns for years to come.

**It's the Biggest, and It's Getting Bigger**

A pioneer in the industry, Digital Realty was one of the world’s first data-center-focused real estate investment trusts (REIT). Today, it’s the largest publicly traded REIT in the U.S., with 284 facilities in 11 countries on four continents.

If you’re worried about competition from Amazon.com or Alphabet new cloud storage services, don’t be.

Here’s why: Digital Realty doesn’t rent space on its own servers. Instead, it owns the real estate and provides a secure facility for companies to house their own servers. Amazon and Google, by comparison, lease space on their own servers.

Consider this: One of Digital Realty’s largest customers is Facebook. Do you think Facebook wants to place all its corporate secrets and software code on Amazon’s or Google’s servers? Hell no; they want strict privacy.

Moreover, Amazon’s and Google’s storage services are targeted at small to medium-sized enterprises.

In short, neither Amazon nor Google represents a competitive threat.

By the way, Digital Realty does business all over the world; 61% of its revenues come from North America.

If you want to keep something safe, you put it in a vault and that is especially true for data.

Storing data remotely mitigates against disasters like hurricanes, floods, earthquakes and/or fires. And redundancy is imperative when it comes to mission-critical data, like customer lists.

The “mission critical” aspect is why modern data centers look more like Fort Knox than Silicon Valley. Security starts with the physical security of the data center, including security guards, video surveillance systems, access cards, even biometrics devices to tightly control access.

And 24/7 reliability for power and internet connectivity is essential if you’re a retailer that does a lot of e-commerce. The last thing you want to happen is to suffer a power outage or lose your connection to the internet during Shopmas.

Source: SeekingAlpha

You’ve heard the old real estate mantra “location, location, location.” Well, the reason that mantra is so
powerful is that great locations translate into great tenants.

What a Customer List

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<thead>
<tr>
<th>TOP 20 CUSTOMERS</th>
<th>Locations</th>
<th>% of ARR(1)</th>
<th>Customer Rank</th>
<th>Locations</th>
<th>% of ARR(1)</th>
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TOTAL ANNUALIZED RECURRING REVENUE 48.4%

Source: SeekingAlpha

Thanks to Digital Realty’s diversified geographic footprint, its customer list is a blue-chip roster. Its clients include IBM, Facebook and AT&T, as well as Oracle Corp. (NYSE: ORCL), Verizon Communications Inc. (NYSE: VZ) and Comcast Corp. (Nasdaq: CMCSA).

Best of all, once an entity becomes a Digital Realty customer, it tends to stay a customer forever. Why? The data storage business is sticky because the disruption and danger of switching solutions is just too high.

In short, those deep-pocketed big boys are there to stay.

Profits, Profits, Profits

Combined tailwinds of Big Data, the cloud, wireless and streaming media and third-party outsourcing has translated into major business for Digital Realty.

Last quarter, Digital Realty reported a 27% year-over-year increase in revenues. That’s great. But the most important metric for REITs is funds from operations, or FFO. It’s basically REIT-speak for “earnings.” This is the account from which REITs satisfy the requirement to distribute at least 90% of their net income to shareholders.

Digital Realty has grown its FFO every single year since 2005. From $1.37 per share in 2005, it’s expected to hit $6.10 to $6.15 in 2021, an exceptional compound annual growth rate of 12%.

If you’re like me — worried about the coronavirus pandemic — Digital Realty is in one of the few businesses that can grow its sales and profits no matter what happens to the economy.

That’s because of the relentless growth of digital data.

16 Years of Rising Dividends

Digital Realty currently pays a $4.48 annual dividend, which works out to better than a 3% yield. However, Digital Realty has regularly increased its dividend as its revenues and FFO have grown.

In fact, Digital Realty has increased its dividend for 16 straight years, by an average of 14% a year. The next quarterly dividend will be paid in mid-April.

Here’s what to do ...

Using 5% of the funds you’ve allocated to the Disruptors & Dominators model portfolio, buy Digital Realty Trust, Inc. (NYSE: DLR) at the market.
### Disruptors & Dominators Position Table

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<th>Stock</th>
<th>Ticker Symbol</th>
<th>Buy Date</th>
<th>Buy Date</th>
<th>Current Quote (as of 2/25/20)</th>
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