

# B A R R E T T

ASSET MANAGEMENT, LLC  
SINCE 1937

## Bitcoin: Currency of the Future or Modern Day Tulip Mania?

### What is Bitcoin?

- Bitcoin is a virtual digital coin that was created in 2009 by an anonymous person with the pseudonym of Satoshi Nakamoto. The “coins” are created through a “mining” process that requires high levels of computing power to solve intricate algorithms. The maximum number of coins that can ever be mined is 21 million and about 80% of those coins have already been mined.
- Bitcoin can be traded on exchanges that have been set up expressly for trading in Bitcoin and other digital coins, such as Ethereum, Litecoin and Ripple. Today there are over 1,000 types of digital coins with a total market value in excess of \$400 billion, but the largest coins mentioned above represent about 60% of the value of all digital coins.
- Due to the fact that Bitcoin ownership is very difficult to trace, the earliest adopters of Bitcoin were people who wanted to move money surreptitiously (e.g. criminals).
- Today, we are starting to see broader acceptance and potential legitimization of Bitcoin as many more people get interested in the potential of cryptocurrencies. The most recent sign of at least limited acceptance has been the listing of Bitcoin on the CBOE and CME futures exchanges.

### How does it Work?

- Bitcoin and the other digital coins use a very sophisticated accounting technology called Blockchain. Blockchain is a distributed ledger system, essentially a database. Transactions on Blockchain are blocked together and go through an approval process that requires a consensus on the accuracy of the transactions within the block. Once approved, the transactions are settled and cannot be altered. This distributed ledger theoretically makes it difficult (some say impossible) to corrupt. Since the data is broadly disseminated, it also makes it very difficult for any group or government to control, track or shut down.



"I'll give you a HUGE bonus in bitcoins if you can explain to me what the hell they are."

### Argument for Bitcoin:

- First of all Bitcoin has “first mover” status that makes use of the highly innovative and potentially disruptive technology of Blockchain. Bitcoin is limited to a total of only 21 million coins that can ever be mined over time (currently around 16 million in circulation).
- In theory Bitcoin cannot be manipulated by any government and cannot be devalued by the repetitive minting of more currency as has happened with most state sponsored currencies.
- Bitcoin and other cryptocurrencies can reduce the “friction” or cost of making international transactions due to the fact that it may not need to be converted into a domestic currency.
- Further comfort and acceptance of Bitcoin could come with time and this might very well dramatically reduce its volatility.

### Argument against Bitcoin:

- One of the greatest criticisms of Bitcoin is that there is nothing backing it up. It has been created by an unknown source and at least originally used by crooks and criminals as a way to surreptitiously pay for illicit goods.
- There is no way to value the intrinsic value of a Bitcoin because it has no intrinsic value.
- Due to lack of regulation, there is no one, or entity, in charge. Some see this as a positive, but this lack of control could easily lead to chaos at some point in the future.
- The underlying foundation of Bitcoin is tenuous at best as the exchanges that facilitate transactions are not regulated and lack the security and oversight that consumers expect of financial institutions.
- Several of the exchanges have been hacked leaving many people with empty “wallets” and no way of finding recourse. It is for these reasons that many governments around the world have cast a wary eye upon Bitcoin and its ilk with some governments, including China, shutting down the exchanges within their borders. If enough governments follow this path it will make it nearly impossible for Bitcoin to gain the confidence necessary to become broadly accepted as a currency or store of wealth.
- The current mania has led to a dramatic increase in demand, but as we have seen with other limited supply items in the past this can change swiftly, leaving people holding the bag. In many ways holders of cryptocurrencies are playing the ultimate game of Hot Potato.

### Is it a Suitable Investment?

- Ultimately any “value” that Bitcoin has rests on supply and demand. As the price of Bitcoin has risen it has gained attention as a get rich quick scheme. This in turn has led to a mania whereby masses of people have rushed to acquire something they know little to nothing about with the hopes that it will continue to rise in price and that they will be able to cash it in at a future date for an economic windfall. In reality, these people are counting on the persistence of the “greater fool” theory.

- People are gambling on something they cannot value, that is unregulated and has very limited acceptance.
- The volatility of Bitcoin, sometimes well over 10% in any given day, would preclude it from being accepted as a real store of wealth or a state sponsored currency. Additionally there are significant safety risks as several “coin exchanges,” which act as custodians, have been hacked resulting in client wallets being emptied, a virtual mugging if you will, with no recourse.

At this point in time, it appears that there is considerable merit to Blockchain as an innovative and potentially disruptive technology. This technology may very well have a dramatic impact on finance, commerce and logistics and warrants our further investigation. However, there are simply far too many concerns and unanswered questions to consider Bitcoin as a viable currency alternative, or even a store of wealth, at this time.

**John G. Youngman**  
**Managing Director**  
**January 2018**

*Important Disclosures:*

1. *This presentation may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.*
2. *Historical performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.*
3. *Investment in securities involves the risk of loss of interest and/or initial investment capital.*
4. *Nothing in this presentation is intended to be or should be construed as individualized investment advice. All content is of a general nature. Individual investors should consult their investment adviser, accountant, and/or attorney for specifically tailored advice.*
5. *Any links to outside content are listed for informational purposes only and have not been verified for accuracy by the Adviser. Adviser does not endorse the statements, services or performance of any third-party vendor without specifically assessing the suitability of a third-party to a client’s or a prospective client’s needs and objectives*