



Rodney's Take

August 3, 2020

Time to Buy the Bitcoin Breakout?

Bitcoin and other digital currencies shot to the moon in 2017. At our conference in October of that year, I verbally threw cold water on cryptocurrencies, noting they were difficult to use in everyday transactions, difficult to secure, and if successful would threaten central banks. One of our guest speakers suggested that many crypto critics had never purchased a digital coin, so they weren't qualified to tear it down.

I recognize a childish taunt when I hear one. A wise man learns from the experience of others.

So, of course, I bought some.

I purchased Ether and Dash in December 2017, just as coin values were making a blow-off top. Bitcoin and others essentially doubled in late December and January, and then fell back to earth by February. I didn't just sit around. I traded the position a bit, took some profits, then moved some into Bitcoin, which kept falling just like the others.

After several trades and exchanges, I totally cashed out and calculated my returns. On a few thousand dollars, I made about \$50. I was thrilled that I'd not lost any money, because it was all an exercise to gain experience in the field.

And it proved my points.

The coin values swung wildly, seemingly not connected to anything. When I wanted to trade, I had to go through an at least two-step verification, which was time consuming, and I never considered using the coins to buy goods or services. In short, I treated them the same as everyone else, like online gambling chips, hoping I wouldn't be the greater fool.

Today is no different, at least from the standpoint of coin traders.

After spending some time in the \$4,000 range after the ugly drop in 2018, Bitcoin gained a little ground in late 2019 and is up around 50% this year, sitting just north of \$11,000. If you're an online gambler who got in before the jump over the past month, that's great, but it doesn't make Bitcoin a currency.

It's possible that people are gravitating to the digital dollars because they're worried about the value of traditional, state-issued money as central banks print gobs of cash and governments go deep into debt. Perhaps people bought Bitcoin this year ahead of the "halvening" in May, when the algorithm controlling Bitcoin creation essentially reduced new coin issuance by half. Or maybe we're seeing all the new day traders, the professionals working from home, chase the latest momentum investment.

Whatever the reason for the jump in price, I've not seen any evidence that more people are suddenly using Bitcoin to buy stuff, and that's a problem.

For all the hoopla surrounding cryptocurrencies, if they don't serve as a storehouse of value and medium of exchange, they aren't money. It's hard to call something that swings more than 50% in a matter of months a storehouse of value, and if consumers don't readily use it to purchase goods and services, then it's not a medium of exchange.

And then there's the official response.

Central banks and governments cannot allow Bitcoin and other cryptocurrencies disconnected from official banking systems to flourish. If citizens moved away from traditional banks, governments would lose control over monetary policy including interest rates and money creation, as well as capital controls. They wouldn't like that.

So far, few people use digital currencies for anything more than speculation, but government officials have taken notice and several are experimenting with central bank digital currencies (CBDCs). These currencies exist as units in a database with unique identifiers but still count as part of the monetary system. They don't travel through banks, so they can be accessed and exchanged easily across borders. Governments control them, which means they can trace them, tax them, and even change their value at will, which would seem to negate many of the positives championed by cryptocurrency supporters.

All of this leaves us where we started. Cryptocurrency fans are at odds with official banking systems, few people use them for everyday

transactions, they're difficult to use at a store and hard to secure, but the wild gyrations make them catnip for day traders and speculators.

Buying them today requires believing a greater fool exists. That person might be out there, but at least in this arena, it won't be me.

Rodney

Got a question or comment? You can reach us at info@hsdent.com.