



Rodney's Take

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The Bitcoin Bubble Will Get Bigger

Digital currencies have come back into fashion, after a meteoric rise and fall a few years ago. Investors who were wiped out the last time the bubble burst have been replaced by new investors who are eager to have their chance.

But this time is different, and it has nothing to do with the currencies, the government, or even the pandemic. It's all about access.

As Bitcoin and other cryptos rose to prominence in 2017, readers started asking us how a switch to such currencies would affect the dollar and other national currencies. I was quick to point out that we'd never get that far, because our government and others around the world would never cede control. If people began storing their wealth in digital dollars, it would rob the banking system of deposits, or at least of value, and diminish the control central banks have over the monetary system.

Which government stands ready to let go of control peaceably? If they ever felt threatened by Bitcoin and others, they would immediately clamp down on use. But so far, that's not a concern, because people aren't buying Bitcoin as a currency, they're treating it as an investment.

With the price of Bitcoin falling from \$10,000 per coin to less than \$5,000 and then soaring to near \$20,000, no one wants their paycheck denominated in the digital currency, but Bitcoin definitely is interesting to people who like to gamble, er, invest, in fast-moving commodities. Now that stock investors can buy shares of Grayscale Bitcoin Trust (Nasdaq: GBTC) as easily as they buy shares of Apple (Nasdaq: AAPL) or Amazon (Nasdaq: AMZN), millions of people who never would have gone to the trouble of establishing a digital wallet can join the Bitcoin movement. And then there are the likes of PayPal and Square, among others, that now allow users to buy digital currencies.

Greater access means more people will buy a product in limited supply, which implies a higher price. But it gets better.

The Grayscale Bitcoin Trust essentially is a holding entity that purchases Bitcoin as people invest. The more money that flows in, the more the trust buys. And then the coins sit there, out of circulation, which shrinks the number of coins available for others to purchase. This makes the value of the trust rise, which attracts more buyers and keeps the cycle going.

Grayscale currently has about \$9 billion in assets, but because of how the trust operates, the share price is trading at a premium of about 17% to its net asset value. A back-of-the-envelope calculation tells me that the trust holds around \$7.7 billion worth of Bitcoin, or about 2.3% of all Bitcoin in existence. There are roughly 18.5 million Bitcoin in circulation, a number that will top out at 21 million.

With millions of people now able to buy Bitcoin with a simple click and with the price up more than 100% this year, it's bound to attract an ever-larger number of investors.

Given the circumstances, I have no idea how high it will go before enough people decide to cash out that the price comes down to earth. Bitcoin is not a currency, it won't replace the dollar or the euro, and it doesn't

represent ownership in a company. But none of that will stop it from soaring, as people flock to a rising share price and easy ownership.

Rodney

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