



Rodney's Take

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What Is Bitcoin Worth?

Here's the short answer: I have no idea. The long answer is that we can arrive at a pretty good estimate. Bear with me.

The nature of money doesn't change very often, but it's always disruptive when that change happens. The Federal Reserve Act of 1913 created a centralized entity for issuing and controlling money. That concept might sound kind of boring today, but the act removed the rights of banks that had been issuing currency and setting reserve rates as they saw fit and handed that authority to a small group of people.

In his first days in office, President Roosevelt signed Executive Order 6102, which required citizens to surrender all of their noncollectible gold in exchange for U.S. dollars. The following year, Roosevelt signed the Gold Standard Act, which increased the value of gold from \$20.67 per ounce to \$35 per ounce, effectively devaluing the dollar by almost 70%. By taking away the ability of citizens and businesses to exchange their dollars for gold, Roosevelt put the value of our wealth accumulated in dollars at the mercy of central bankers.

President Nixon went a step further when he closed the gold window completely in 1971. By severing the link that had existed between the buck and gold since the Bretton Woods system of fixed exchange rates was established at the end of World War II, Nixon separated the last threads that tied our currency to anything concrete. Since that time, the dollar's value has been deduced in comparison with other currencies. The value in

our bank accounts bob in the ocean of currencies, gaining and losing value every day, depending on the economic weather. Most of us don't feel the daily changes because we earn our income in dollars and pay our bills in dollars, but the changes do happen, and when they're large enough they affect our standard of living.

I don't know if cryptocurrencies represent the next phase of money as that community claims, but it's an interesting thought. I've long held that governments will reign in digital dollars before they siphon too much value from official banking systems, but the desire of governments control money and stored value is in direct conflict with our desire to put our wealth out of their reach. It's a sad day when you realize that everything you have can be confiscated legally through taxation or other means, which is what makes cryptocurrencies attractive.

But at what price?

I like Bitcoin in this area because of its limited supply, which puts the crypto into the realm of precious metals and at least gives us a frame of reference. We can think of Bitcoin as potential digital gold. The people who verify Bitcoin transactions and add blocks to the blockchain, thereby earning themselves a sliver of newly created Bitcoin, are called miners, which helps with the comparison.

We know the cost of mining an ounce of gold. Large miners currently report an all-in sustainable cost (AISC) per ounce of about \$1,100 to \$1,300. With gold trading around \$1,700, that gives mining companies a healthy profit margin of 41.6%.

Now compare that with Bitcoin. "Mining" the cryptocurrency requires heavy-duty computer data crunching, which involves high-end computer equipment and electricity. The estimated cost of earning one new Bitcoin is around \$11,000. The cryptocurrency traded over \$61,000 last weekend, which implies that it has a profit margin of more than 450%. That's a wee bit better than gold, but not as messy.

On the flip side of the cost of mining or creation is the value assigned to these things by consumers and investors. Taken together, all of the investment gold in the world today, which excludes jewelry, is worth about \$8.9 trillion. All of the Bitcoin in the world is worth just over \$1 trillion. For the price of Bitcoin to eclipse our gold holdings, it would have to jump from \$61,000 to about \$475,000. What's more, we'd need to sell all of our gold and buy Bitcoin.

That seems unlikely, considering that gold has a 5,000-year history as a medium of exchange and that Bitcoin is newer than the iPhone. If Bitcoin gains a following as digital gold, it likely will be in addition to the shiny stuff, not instead of it. If we say the total pot for owning both is around \$10 trillion, then Bitcoin would need to trade at \$268,000 to make up its \$5 trillion half.

Maybe it will get there, maybe it won't.

If we simply take a halfway point between the mining cost and the \$268,000, we get a Bitcoin target of about \$139,000, or more than double today's price. I have a little Bitcoin (very little) and have recommended that our subscribers buy Grayscale Bitcoin Trust (NYSE: GBTC) in December at \$23.25. I'd be thrilled to see it go that high, but I have zero confidence that will happen. I don't think most investors are trying to arrive at a price for Bitcoin, I think they're hoping for round numbers. Instead of calculating some equivalent value, they're waiting for Bitcoin to reach \$75,000, or even \$100,000, and then looking to exit.

Which brings me back to the beginning. I really don't know what Bitcoin is worth, except for the last price paid. While I'm enjoying riding the wave higher, I hope I get out just before we crash on the beach. I'm thinking \$74,999 is a great target... until we get there. Then, I'll be looking for \$99,999.

Rodney

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