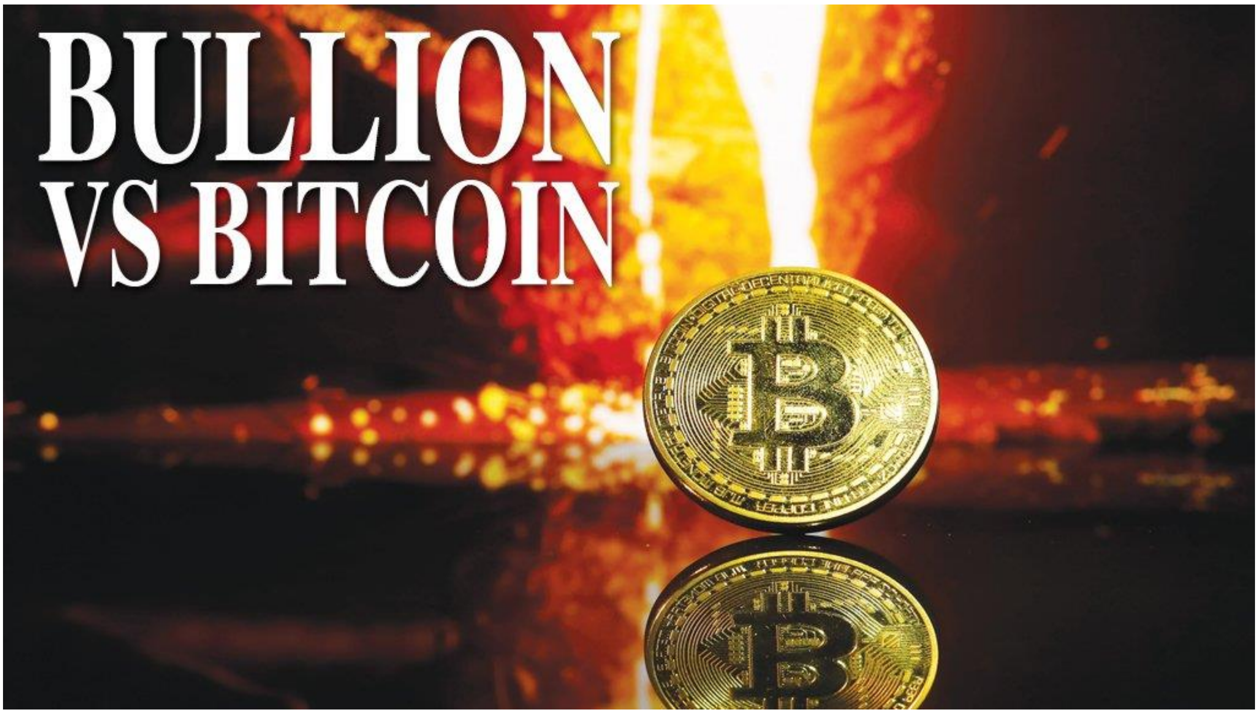
Despite bitcoin craze, bullion unlikely to lose its status as a major investment vehicle – economist



16TH MARCH 2018

BY: NADINE JAMES
CREAMER MEDIA WRITER

Although some economists regard cryptocurrencies – bitcoin being the most popular – as a fad, others, such as Nascence Advisory director and economist **Xhanti Payi**, remain open-minded, unwilling to write off a potentially disruptive technology with massive implications for global economic structures.

Cryptocurrency community forum Bitcoin South Africaconsultant and media manager **Francois Harris** explains that bitcoin is an online payment system invented by an anonymous user using the pseudonym **Satoshi Nakamoto**, who published his invention in 2008 and released it as open-source software in 2009.

"The bitcoin system is peer-to-peer, and users can transact directly with each other all over the world almost instantly, without needing an intermediary, such as a bank."

Although primarily regarded as an alternative payment system, the astronomical bitcoin price increases have resulted in users looking to invest and trade in bitcoin for potentially massive returns.

Despite the bitcoin phenomenon being described as the 'new gold rush', Payi believes that it is highly unlikely that bitcoin could ever usurp gold bullion as an investment vehicle, specifically because of gold's status as a safe-haven investment.

He notes that the bitcoin price is far too volatile and that widespread acceptance is still too far off for it to be considered a viable long-term investment.

In determining the sustainability of bitcoin as an investment vehicle, one needs to consider whether it has intrinsic value, whether it can be regulated and what purpose it serves, Payi explains.

CAN IT BE REGULATED?

Payi notes that one of the main selling points for cryptocurriencies is the lack of regulation and, although Harris agrees, he notes that a "measure" of regulation was always expected by the community, noting that "some form of government regulation is inevitable as bitcoin matures".

Payi comments that, while the introduction of regulation may reduce bitcoin's price volatility, it could also result in fewer users, as they may value the lack of government interference.

Harris counters by explaining that the bitcoin infrastructureensures that considerable time, money and energy would have to be expended before any government agency could pose a "serious threat" to the network. Thus, any regulation instituted would be minimal and, therefore, have a limited impact on the number of users.

Payi further comments that the bitcoin community's "seeming desire to run away from government control" feeds the belief that the community uses the cryptocurrency for illicit activity – a belief that is strongly held by goldinvestment firm SA Bullion MD **Hilton Davies**.

"The primary early adopter of bitcoin was Silk Road, a notorious online drugs marketplace. Bitcoin is believed to have been similarly adopted by Russian mob cartels and Chinese gangs," he says.

Davies believes that cryptocurrencies have a "natural appeal" for criminals, as they fall outside of anti-money-laundering controls – at least until these controls are adapted and applied to monitoring the transactions permanently recorded in the distributed ledger.

Harris, however, counters that the desire for less regulation is not inherently nefarious, and that overregulation is frequently cited as a detriment to business.

Further, while users may have bitcoin addresses that are not linked to identifying information, a person's identity can be associated with a bitcoin address through other means, he says. Once the identity has been verified, it's possible to track all the transactions through the blockchain history. "A single anonymity breach can uncover an individual's entire bitcoin transaction history."

Harris states that all forms of currency can be used for illicit activity, and that "drug dealers use cash too".

DOES IT HAVE INTRINSIC VALUE?

Payi and Davies are sceptical about whether bitcoin has any intrinsic value – one of the characteristics that affords gold its safe-haven status.

Bitcoin has no value, represents nothing and is not an investment. "It is a pet rock", declares Davies.

"Unlike bitcoin, shares represent part of a business, and bonds a guaranteed income stream and capital repayment plan. Those prices fluctuate as buyers advance or retreat, but, for the vast majority of listed investments, the deal is rational and quantifiable."

Meanwhile, Payi does not dispute that bitcoin can have value, but questions where its value is derived. "Gold has multiple uses outside of being an investment vehicle . . . it is used for multiple purposes, but what makes bitcoin valuable, aside from the belief that it is valuable?"

He adds that the 'belief of value' in bitcoin is not comparable to 'belief of value' in fiat currencies, because currencies do not rely only on belief – they gained broader acceptance by virtue of their being sanctioned by government.

Harris concedes: "If society came to a screeching halt, a decentralised currency that isn't backed by government or pegged to a commodity will likely not have any value."

However, he stresses that there are arguments to be made about the value of bitcoins used by a global network of exchanges (for bitcoin traders) and merchants. Like any other commodity, bitcoin's value is determined by supply and demand. "If usage grows and this currency becomes a mainstay, then its value will increase," he suggests.

WHAT IS ITS PURPOSE?

Payi has difficulty in trying to establish the purpose of bitcoin: "What need is it addressing? It cannot be considered a currency because it has not gained widespread adoption by citizens. It may be a medium for exchange, but only for a select group."

He stresses that a currency cannot be effective if only certain individuals deem it valuable. Further, bitcoin cannot be considered a long-term investment, although it could derive short- or medium- term gains. Payi notes that there are other, less risky investment products that serve this purpose.

Davies, however, says bitcoin's only purpose is to defraud people. "Bitcoin happened to press the right buttons to gain great appeal. It is a new, shiny alternative to stodgy old currencies that are dressed in economic-speak and waffle."

He states that a great fad requires both the "low-hanging" fad followers and the conversion of sceptics to bring the fad into the realm of respectability "where the real money resides".

Davies is adamant that bitcoin represents nothing of value and has zero basis to exist, and he believes that any companies that have agreed to accept bitcoin will start "walking back" their decisions.

He points to local retailer Pick n Pay, which allowed for payment through bitcoin for a trial period in September last year. The trial was limited to one store and lasted mere days.

At the time, Pick n Pay deputy CEO **Richard van Rensburg** told Business Day: "We don't expect that, in the near term, accepting bitcoin will unlock any significant new business . . . we are unlikely to roll out the solution until the payments industry and regulatory authorities have established a framework for managing the risks associated with cryptocurrencies."

Davies comments that, irrespective of economic fundamentals and changes in law, companies will soon find that the bitcoin system is impractical and will be left holding on to a cryptocurrency with declining prices. "The problem with the distributed ledger is that every single transaction is recorded for all time, and already bitcoin transactions are grinding to a halt."

He adds that, from what he has observed, recent transactions "are taking about 20 minutes to resolve – it will not be long before the system is unworkable".

Harris stresses that, bitcoin, as a form of payment for products and services, has grown and that merchants have an incentive to accept it because fees are lower than those typically imposed by credit card processors. “Unlike credit cards, any fees are paid by the purchaser, not the vendor.”

He adds that bitcoin’s purpose is to act as a currency that is “independent of any central authority and electronically transferable, with very low transaction fees”.

Although some people have made money, Harris stresses that bitcoin is not a get-rich-quick scheme. “If you are thinking of starting bitcoin mining now, you are probably too late – unless you know exactly what you are doing, are going to invest millions into a bitcoin mining farm or have access to extremely cheap electricity and resources.”

Further, he notes that, because of the way the system is structured, bitcoin mining hardware will generate less and less bitcoin over time. “Every time the bitcoin difficulty increases – it’s recalculated roughly every two weeks – you generate less bitcoin and, therefore, less profit.”

Harris advises that, once the bitcoin generated every day is worth less than the miner’s running costs, “it’s time to turn off”, as it would be cheaper to just buy bitcoin.

“New users of bitcoin are the most excited about possibly earning a living from mining bitcoin or using it as another income stream. The reality is that bitcoin mining is expensive, requires adequate technical knowledge, and some level of computer and troubleshooting skills.”

On a bitcoin exchange, potential investors “are not actually buying the bitcoin from the exchange itself, but are instead trading with other users who are putting their bitcoin up for sale”, Harris notes.

Traders use bitcoin exchanges to trade bitcoin like foreign exchange, but investors will use the exchange to buy bitcoin when investing, and sell bitcoin when divesting.

Harris concedes that, despite the melee surrounding bitcoin, bullion will remain the investment mainstay for now; however, “in terms of an investment for the future, I would put all my money on bitcoin outperforming bullion . . . but only time will tell”.