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Should you own (maybe just a little) Bit

Andy Serwer with Max Zahn 1 day ago



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Is crypto the (new) trade of our lifetime? I ask this question as the price of Bitcoin (BTC-USD) — a proxy for all cryptocurrencies — has fallen almost 50% since mid-April, from \$63,000 to \$32,000. (I'll get to the parenthetical "new" in a second.)



© Provided by Yahoo! Finance MIAMI, FLORIDA - JUNE 04: Jack Dorsey creator, co-founder, and Chairman of Twitter and co-founder & CEO of Square speaks on stage at the Bitcoin 2021 Convention, a crypto-currency conference held at the Mana Convention Center in Wynwood on June 04, 2021 in Miami, Florida. The crypto conference is expected to draw 50,000 people runs from Friday, June 4 through June 6th. (Photo by Joe Raedle/Getty Images)


We may even be heading into another so-called crypto winter, where the price of Bitcoin falls precipitously and stays down for some time. But here's the rub: Heretofore each downturn has been followed by the price of the coin recovering and then going on to greatly exceed its previous high.



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Doesn't that scream long term buy and hold? (trader bait if that's what floats your boat.) Shouldn't you therefore own a piece? Maybe a little piece?

How do we know crypto will continue to go up? No one knows. Apple (AAPL), Tesla (TSLA) and Nvidia (NVDA) seem like obvious bets now, but five or 10 years ago they looked risky, or overpriced or both. And with Bitcoin you add a whole other layer of uncertainty, which is to say crypto currency itself. Crypto is way more

complex and speculative than iPhones or EVs or chips.

I'll get into the issue of defining crypto later, but I want to be clear that what I'm really trying to address here is, should you have some exposure to crypto in your investment portfolio, and if so, what kind and how much?

That question comes from this fact: It's entirely possible the only thing riskier than owning crypto, is not owning crypto. Meaning that 50 years from now, your grandchildren might shake their heads in disgust for you not buying Bitcoin at \$32,000, (or \$25,000 next week.)

A dilemma, no?



Let me briefly address the word "new" in my lead, which I used because for the past 25 years, I've called tech the trade of our lifetime. Just like with what we've seen so far with crypto, tech stocks would go up and would go down, but they would always go higher. The chart for the NASDAQ 100 Technology Sector (^NDXT) goes from bottom left to top right. And it makes sense, doesn't it, as tech becomes a bigger and bigger part of our economy.

And now? Well, I'm not saying tech is finished by any means, but it could be that after two and a half decades, the sweetest part of that trade has run its course, especially for the big FAAN/MG (Facebook, Amazon, Apple, Netflix, Microsoft, Google) names. Two strong winds now blow in the faces of those companies.

The first is the tyranny of large numbers, meaning it becomes increasingly difficult for a company to grow 30% a year when its annual revenue is closing in on \$200 billion (as is the case with Google, which also sports a market valuation of \$1.7 trillion.) How can a company sustain that and how much bigger can it grow? The second wind is the potential government regulation addressing the massive market power of these tech giants, (though breaking up these companies may be a boon to shareholders and consumers.) And of course these two headwinds are intertwined.





© Provided by Yahoo! Finance MARCH 25th 2021: Google offices in Midtown. (NYC)

A segue back to crypto. I know it seems like all you hear these days is "Bitcoin, Bitcoin, Bitcoin," right? Celebrities, CEOs, and heads of state are either investing in it, setting up endeavors or commenting on it. But here's the thing, the total value of all Bitcoin right now is \$605 billion, or about half of a single FAANG/MG. That also equals only about 1.7% of the world's supply of money (and about 5.3% of the world's gold supply, according to Investopedia.)

In fact all crypto coins combined now account for less than 5% of the world's money supply. Imagine the hype if crypto gets to be equal to 25% or 50% of what they call fiat (or traditional) currency. So maybe crypto has room to grow. On the other hand tulip bulbs were worth a bunch too, back in the day.

What exactly is cryptocurrency? (Forgive me if this part is familiar.) Crypto is a type of digital, usually non-government issued, currency that is encrypted, which protects it from being counterfeited. (So-called stablecoins are crypto pegged to traditional fiat currency like the dollar.)

These currencies exist on distributed computer networks which use blockchain technology, a special kind of database really, which creates a permanent record of transactions that can be viewed by all.

Bitcoin, launched in 2009 by someone or some people under the pseudonym Satoshi Nakamoto, is the king of the coins, but there are thousands of them, (Yahoo Finance tracks over 300), including biggies like Ethereum, used for instance to buy and sell NFTs (non fungible tokens, which I wrote about here), Ripple, or XRP, which is used for banking transactions and the infamous Dogecoin, a satirical coin (replete with its Shiba Inu dog meme), which has a very no joke market value of \$25 billion.

Yes, it's kind of crazy. Warren Buffett and Charlie Munger don't like crypto. Munger calls it "rat poison" and says it aids and abets criminals. That certainly has been true (along with all the legit use), but it ignores the obvious point that a vast majority of all

the crime in the world is facilitated by traditional currencies and systems, (Exhibit A The FinCEN Files investigations. Crypto is never mentioned here. JPMorgan, HSBC Deutsche Bank and dollars are often.) It's still very much the case that the \$100 bil the criminal's currency and denomination of choice.

Others point to additional issues with Bitcoin. Elon Musk for instance, generally a crypto bull, helped juice the run-up in Bitcoin earlier this year when Tesla announced it would accept Bitcoin as payment. But Musk then created a crypto downdraft in late 2021 when he suspended that program due to environmental concerns, as creating Bitcoin (or mining), requires copious amounts of energy consumption. (Musk said this week he will reconsider as mining processes improve.)

Others note Bitcoin isn't actually accomplishing what many hoped it would do.

"Bitcoin was designed as a digitally anonymous medium of exchange that did not involve a trusted third party, such as a central bank, but Bitcoin has failed abjectly its stated objective," says Eswar Prasad, a professor at Cornell University and author of a forthcoming book called, "The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance."

"It's a very volatile currency in terms of value, so it is not a reliable medium of exchange. Moreover, it's slow, expensive, and cumbersome to use," he said. "Despite its lack of intrinsic value, Bitcoin began to be adopted mainly as a speculative asset."

Ric Edelman, executive chairman of Edelman Financial Engine, doesn't necessarily disagree but says "where bitcoin is not succeeding as a digital currency it is succeeding as a digital asset." Furthermore Musk and others believe that entrepreneurs will build "layers" on top of Bitcoin that will render it more utility.

Video: Bitcoin is not the value that everybody thinks it is: Fitz-Gerald Group CIO (Yahoo! Finance)



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© Provided by Yahoo! Finance FILE - In this June 13, 2012 file photo, JPMorgan Chase CEO Jamie Dimon testifies before the S Banking Committee on Capitol Hill in Washington. Dimon on Tuesday, Oct. 14, 2014 said that more coordination between businesses and government is needed to combat the rising threat of cyberattacks. (AP Photo/J. Scott Applewhite, File)

Mainstream bankers like Jamie Dimon, CEO of JPMorgan Chase, have also mostly been critical, though Dimon's view is evolving. Initially he savaged crypto, but said that blockchain technology was legit (a common stance by mainstream financial folks), and green lit blockchain projects at the bank. Then in congressional testimony to the U.S. House Financial Services Committee in late May, he said he wouldn't steer

clients away from crypto.

"My own personal advice to people is: stay away from it. That does not mean the clients don't want it," Dimon said. "This goes back to how you have to run a business don't smoke marijuana but if you make it nationally legal, I'm not going to stop our people from banking it."

Just this week, JPMorgan became the major bank to give its customers access to crypto funds.

I tend to think that Bitcoin and its ilk are to money what the internet is to informat — a digital, low cost, less fettered variation. As such, cryptocurrency and blockchain are a parallel universe to the legacy world of finance, soon to mirror every facet of what came before and perhaps one day to subsume it. What does that mean for JPMorgan, the Fed, the NYSE and the dollar? Lots, though who knows what exactly may not kill any of them though. For instance, all those newfangled mobile payment businesses like PayPal and Square haven't slowed Visa and Mastercard much.

Then there's regulation. At some point lawmakers will wrap their brains around crypto but they haven't yet. "Right now we're past the wild west phase where we were living in a fairly unregulated environment. We're in what I would characterize as an awkward phase," says Daniel Tramel Stabile, a partner in the Miami office of Shutts & Bower LLP and a professor at University of Miami Law School, who specializes in legal issues surrounding digital assets. "I think in the long run regulation will be a very positive thing for the industry as it continues to mature."

I could write a zillion more paragraphs about crypto, it touches every corner of our lives now and there are a flood of news stories every day, but I'm going to leave it at that. Except to refer you to a pretty incredible, somewhat under-the-radar conversation at The B-Word Conference this week between Elon Musk, CEO of Tesla and SpaceX, Jack Dorsey, CEO of Twitter (TWTR) and Square (SQ), and Cathie Wood, head of ARK Invest, entitled "Demystifying Bitcoin." It really bears watching but here are a few choice nuggets salient to this story.

"I've thought about money for quite a while," says Musk. "I especially think about money as an information system. It makes sense to support something that improves the quality of information with which we conduct the economy. Bitcoin is a candidate for that."

"My hope for crypto in general is that it can improve the efficiency of the information that we call money. So if the core efficiency of money is improved and money has less error, error as in any kind of government interference or fraud. This will lead to a better standard of living and more power to the individual, which I very much agree with."

Dorsey said he likes crypto because of "the network and the community. It's deeply principled, it's weird as hell, it's always evolving. It just reminded me of the internet when I was a kid. The amount of cost and distraction that comes from our monetary system today is real and it takes away attention from the bigger problems."

Cathie Wood sees crypto as "solving even more problems but also creating even more opportunities as well, which is the history of technology and disruptive innovation."

Some visionary advocates there, all three of whom are oh-so-familiar with wild swings in valuation. Speaking of which, the price action of Bitcoin has not been for the faint of heart. From October 2013 to April 2014, for instance, BTC went from \$100 to \$1,200 and back to \$400. But that's ancient history. In 2017, BTC went from \$900 in March (famously) almost \$20,000 in December, and then down to \$3,500 a year later. And now over the past 12 months or so, Bitcoin went from \$5,000 to \$60,000 and now halved again.

Despite that, or really because of that, more and more want to take the plunge. A survey by Goldman Sachs "found that nearly half the family offices it does business with want to add digital currencies to their stable of investments." Billionaire Interactive Brokers founder Thomas Peterffy, who's been critical of crypto previously, told CNBC this week that "Even I myself have put a little bit of money into crypto,

because even though chances are, I think, that this is not going to be a viable market. I think that there's a small chance that this will be a dominant currency, so you have to play the odds."

In fact crypto has already minted a new crop of billionaires and centimillionaires, like Sam Bankman-Fried, who Forbes estimates is worth "\$16.2 billion, thus cementing his title of the wealthiest known crypto billionaire." Bankman-Fried is building FTX, a crypto derivatives exchange which just did a \$900 million private equity funding, the biggest in PE history. (Funny I don't see any crypto billionaires popping up on Bloomberg's Billionaires List...yet.)



© Provided by Yahoo! Finance NEW YORK, NEW YORK - JULY 20: A billboard in Times Square displays signs for Dogecoin on 20, 2021 in New York City. New York City has seen a slow increase of tourism as more people receive the COVID-19 vaccination. Times Square Alliance reported more than 160,000 tourists in early April 2021, which is a five time increase from the same time previous year. (Photo by Alexi Rosenfeld/Getty Images)

We checked in with Eric Jansen, founder and CIO of investment management firm Finivi, and asked him for his crypto investing thesis. "It's an alternative investment that doesn't seem to be correlated with the stock market," he says. "The holy grail of investing is to have a basket of investments that don't react the same way to events — interest rates going up or down or the stock market up or down. You could

potentially be in a scenario where crypto markets are doing well and the stock market is not. It could be like the early days of the internet," Jansen says. "You have to expect Pets.com type stocks that go to zero, the same in crypto world, but there are going to be Amazons, Google and Facebooks that eventually come out of it."

"Money is becoming a form of expression," Jansen continues. "In the U.S. I use dollars, in China I use the yuan. I believe in Dogecoin, buy stuff in Doge, believe in Dash, I buy in Dash. You'll use cryptocurrency because it defines you. That's where currency is going. Not country by country but more individualistic."

Well that's different.

"I began highly skeptical, thinking it was a very dubious proposition that this was legitimate," says Ric Edelman. "The more I learned, the more I discovered that this is revolutionary technology that will change commerce on a global scale. I'm confident anyone who goes through a similar exploration will reach a similar conclusion. Do not allow your biases or assumptions to prevent you from making investment decisions that you may regret."

OK, if you're buying any of this then, well, how much do you buy?

"I generally advise investors to allocate 1% of the portfolio to digital assets because of the volatility and because of the price potential," says Edelman. "You don't need to have a significant allocation to have a material improvement in your portfolio. One percent is plenty. If it fails, it's only 1%. Won't cause financial harm. If it improves, as it has historically, it will deliver significant returns."

So where do you put this mad money? "Two choices," says Edelman. "Simply stick to the largest, most established digital assets. That's Bitcoin and Ether. Together they comprise about 80% of the marketplace. It's like saying 'if you're going to invest in soft drinks, buy Coke and Pepsi.'"

Once you decide to take the plunge you then have to decide whether to buy directly from an exchange like CoinDesk or Gemini, (not so straightforward still), from

a broker dealer like Robinhood, from a Bitcoin ATM (true!), through futures, a peer peer network or through a fund like Grayscale's GBTC at brokers like Fidelity, Schw or E-Trade. (The latter is really the easiest.)

Bottom line: There's a whole (parallel) universe to explore here. Take it slow, be car learn and make up your own mind. Just know the whole thing could implode one — or devour the world of money and finance as we know it. Or perhaps most likel something in between.

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