

Bulletin – Cryptocurrencies

October 2017

Much hay has been made about gains to be made in cryptocurrencies like Bitcoin.

However this “gravy train” that people are crowing about is the ultimate in what is called a “fiat” currency. “Miners” run computer code to create new cryptographic keys, and multiple servers and exchanges to eliminate the power of central banks and governments. This is why organized crime likes to use Bitcoin, it is untraceable and only *convertible* into actual currency.

Due to this property, this means that, like a low volume stock on an exchange like the CSX or pink slips, you will need to find a buyer to convert your Bitcoin into your own currency (for us CAD). While Bitcoin is quite liquid now, there is no guarantee that it will remain liquid. It is not backed by a government’s ability to pay via taxation, gold, or anything else. This is the nature of a “fiat” currency - it is only backed by what people are going to pay.

The problem with using this as an investment is that if the trust in Bitcoin (or any other cryptocurrency) fades, nobody will want to buy it, and the price will plummet. It is not backed by anything other than the buyer’s willingness to pay for it, and with a cryptocurrency that means no government with taxation ability or precious resource is behind it unlike other fiat currencies. It isn’t even a company that makes earnings you can depend on with hard assets. It’s basically like printing paper and calling it money; albeit digitally.

Risk: what if there is a cyber crime solution to either produce more Bitcoin than should exist or to mimic MoM (Man in the Middle) transactions and steal Bitcoin?

Should this situation occur, Bitcoin or another cryptocurrency will plummet and hyperinflate. There is no reliable way to hedge against this currency risk with a cryptocurrency. Holding Bitcoin carries this risk inherently, because if you buy a Bitcoin, you are basically buying something on the hope and prayer that someone else will pay the same or more for it if you choose to sell it later; not unlike real estate. With real estate at least you get a hard asset that you can touch. With Bitcoin all you get is a hash key (a string of numbers and letters) that is pretty well free to produce.

A nice concept but very flawed

A non governmental currency is a nice idea but very flawed non-backed.

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