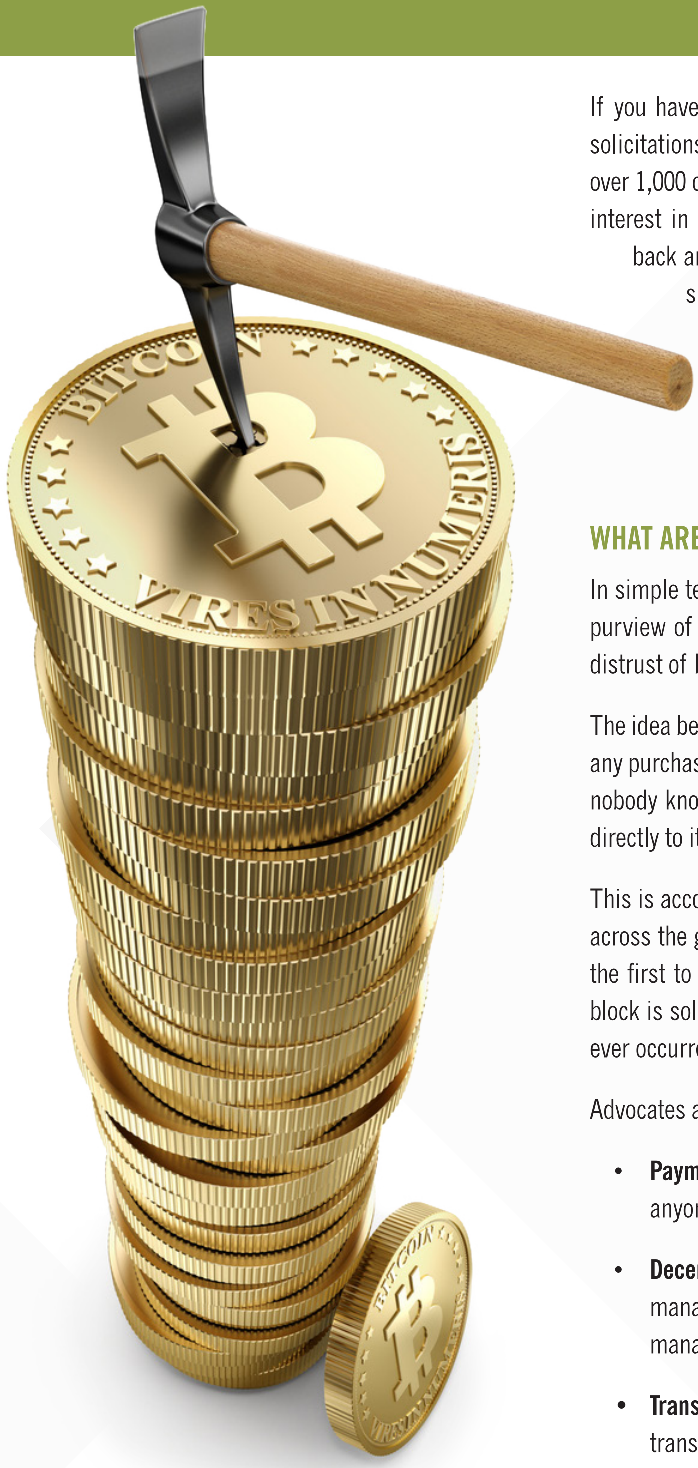
CHOMPING AT THE BITCOIN



If you have a pulse, odds are you've been inundated with a litany of news stories, investment solicitations or simply water cooler conversations about the soaring value of Bitcoin (or one of the over 1,000 other cryptocurrencies such as Ethereum, Ripple and Litecoin). In light of skyrocketing interest in cryptocurrencies as potential investments, we thought it appropriate to take a step back and offer some insights into exactly what cryptocurrencies are, how they work, and the supposed benefits they confer in comparison to traditional paper currencies.

For the sake of simplicity, we'll focus primarily on Bitcoin – since it was the first [created in 2009] and is currently the largest cryptocurrency [with a market cap of >$150 billion][1]; although the similar features and functionality generally hold true across the board.

WHAT ARE CRYPTOCURRENCIES AND HOW DO THEY WORK?

In simple terms, Bitcoin was created as a means to conduct financial transactions outside of the purview of governments and the banking industry. And driven by a growing deep-seated public distrust of both institutions, interest has flourished.

The idea behind cryptocurrencies is that you can waive your smart phone over a reader and pay for any purchase using a fraction of the currency - with the transaction being fast and free. In addition, nobody knows you made the transaction because unlike with a bank, there's no record tying you directly to it. Yet each transaction needs to be verified.

This is accomplished by bundling together a large bunch of transactions into a block, with people across the globe (i.e. "miners") competing with incredibly high-end computing power to become the first to solve an individual block, for which they receive compensation. As each transaction block is solved, it then gets added to a long data chain that comprises every transaction that has ever occurred throughout the cryptocurrency's history – known as the blockchain.

Advocates and devotees of cryptocurrencies point to four key benefits:

- **Payment freedom** – you can purchase whatever you want and pay whoever you want without anyone ever knowing
- **Decentralization** – A global network of computers use blockchain technology to jointly manage the database that records cryptocurrency transactions. So, cryptocurrency is managed by a network – on a peer-to-peer basis, and not any one central authority.
- **Transparency AND Privacy** – each transaction you make is a unique exchange, with the transfer of information done on a "push" basis, allowing you to transmit exactly and only what you wish to send to the recipient. This guards the privacy of your financial history and protects you from the threat of account or identity theft which is greater under the traditional system. While identities are shielded, transaction specifics are available for anyone to see.

- **Instantaneous and Free** – unencumbered by infrastructure and banking bureaucracy, transactions are settled immediately and without traditional debit/credit card type transaction fees

While these are certainly appealing qualities, there appears to be a significant disconnect between perception and reality when it comes to cryptocurrencies. Upon closer examination, whether or not the emperor is wearing any clothes becomes a valid question.

SHOULD I INVEST IN BITCOIN?

Suppose you put a $100 bill in your wallet today and then used it a month from now to make a purchase. Aside from a fraction or two of a cent to account for inflation and depreciation, you can reliably count on that $100 bill retaining its worth. Now let's assume you put $100 worth of a Bitcoin in your "virtual wallet". A month from now, it may be worth $1,000 or $1 – a far stretch from stability. A little over a month ago, Bitcoin was trading above $17,000. As of the writing of this article, it's currently trading at $9,254 – that's an approximately 46% drop in value in a single month.[2]

Despite claims to the contrary, cryptocurrencies do NOT have intrinsic value. There are no underlying capital assets that can be calculated to determine a book value the way you can with a stock. As recently seen, they're only worth what investors FEEL they are worth. Risk, however, isn't a feeling; it's a quantifiable metric based on a particular asset's demonstrated volatility. By most measures, Bitcoin is any exceedingly risky asset to hold.

Cryptocurrency supporters also tout the instantaneous movement and liquidity of virtual currencies. But as demand and acceptance has increased, liquidation delays have become commonplace – in some instances, holders must either wait upwards of a day or two or longer to liquidate their holdings through the blockchain (not ideal given current volatility) or pay fees (currently averaging $28) to move their transaction towards the front of the queue.[3]

The bottom line? Cryptocurrencies by no means meet our litmus test for investments; in our view, they're the financial equivalent of rolling the dice or flipping a coin. So, if you enjoy the thrill (and can afford the loss) by all means you can consider dipping your toe into the water. However, even if the water looks fine, it's not a pool where we recommend a swim.

As for us, we're keeping our eye on the underlying blockchain technology, and genuinely believe it has the potential to revolutionize a host of industries – from banking to data processing, information sharing and more.

DID YOU KNOW?

40% of the world's bitcoins are owned by fewer than 1,000 people [4]

There are more than 1,400 different cryptocurrencies in existence [5]

Currently, there are approximately 1,800 new Bitcoins mined each day [6]

1 https://finance.yahoo.com/quote/BTC-USD?p=BTC-USD

2 https://www.coindesk.com/price/

3 https://www.cnbc.com/2017/12/19/big-transactions-fees-are-a-problem-for-bitcoin.html

4 http://www.businessinsider.com/40-percent-of-bitcoins-are-held-by-just-1000-people-2017-12

5 https://www.fool.com/investing/2017/12/19/16-cryptocurrency-facts-you-should-know.aspx

6 https://www.quora.com/How-many-new-bitcoins-are-created-on-average-per-day