



# HOLDING: BITCOIN

## Summary

Bitcoin is a cryptocurrency that is essentially a computer network with its own protocols, and each “coin” is a unique string of code representing an owner’s store of value. Transactions occur when users use this unique code to exchange for goods, services or to convert back to fiat, or traditional currency, via a blockchain, which is essentially a virtual ledger which instantaneously creates debits, credits, checks and balances over the network.

Basically, Bitcoin and its blockchain technology perform the same role that banks do when processing payments; only much faster and with less transaction costs. Also, fraud is basically impossible as each transaction via the blockchain creates a unique piece of code which cannot be replicated. The technology allows individuals to circumvent banks and traditional financial intermediaries to transact directly with one another.

## What the bulls say:

- Bitcoin enthusiasts have been promoting seemingly unique characteristics of the digital currency such as its direct payment solution without traditional financial intermediaries or its capped number of available tokens that is seen as a good hedge against inflation. The blockchain technology is also expected to erase inefficiencies inherent in the current payment transaction that usually takes days to complete, especially for cross-country transactions.
- Bitcoin price has jumped over 1000% this year as of the beginning of December. The exuberantly high hope from investors in what they believe will be a revolution the finance industry, along with the improving outlook of the global economy, may entice more capital inflows and price of the cryptocurrency will continue shooting up in coming years.
- The introduction of Bitcoin futures recently is considered a positive sign for the coming of a more diversified pool of Bitcoin investment instruments that will bring down the transaction costs and protect the investors better.

## What the bears say:

- Even though being categorized as a currency by the public, Bitcoin tokens has been valued and traded more like a commodity product than a currency. The extreme volatility of Bitcoin price on a daily basis that sometimes can swing up and down 25-30% from the previous day’ price is typically seen in commodities’ price movement.
- One of the distinct feature of Bitcoin that its supporters have emphasized is the unlikelyhood of hacking. Generally it is impossible to hack directly the blockchain technology used to create Bitcoin and other cryptocurrencies. However, cryptocurrency exchanges and especially personal digital wallets where an individual’s Bitcoins are stored are vulnerable to security risks. Since Bitcoin was brought to public nearly 10 years ago, there has been at least 20 majors hacks happened to cryptocurrency exchanges that resulted in hundreds of thousands of Bitcoins being stolen. This poses a serious question about the safety of Bitcoin as a future method of payment and storage of value.
- Wide range of different perspectives from national governments and financial institutions will significantly lengthen the process of creating effective legal frameworks and unity on a multinational level to make Bitcoin a worldwide accepted currency.

## Risks:



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- The major risk of investing in Bitcoin is that it is being traded solely based on the demand and supply principle with no underlying valuable assets to back it up. This exposes Bitcoin to frequent market panics that trigger big sell-off, resulting in significant loss for investors.
- The lack of regulations for Bitcoin and other cryptocurrencies means less protection for those who put their money in this highly speculative market, especially when hacking becomes more and more a serious issue for their exchanges.

### 4 reasons to buy/sell:

1. Cryptocurrency markets in generally and Bitcoin specifically are extremely speculative as there is no proven utility of this new form of financial product. Any currency without sufficient and effective support from a Central bank has always led to hyperinflation. The lack of regulations and different approaches from national governments many of which have completely banned the use of Bitcoin as a transaction method also impose a mass uncertainty on the future of the tokens.
2. With no underlying assets to back up the value of Bitcoin as for other investment vehicles, there is no widely accepted method to decide the real value of Bitcoin and to justify the price rally in 2017. This makes Bitcoin a highly speculative market and does not constitute as a reliable investment instrument.
3. As contrary to arguments from its enthusiasts that Bitcoin cannot be hacked and much safer to keep than traditional financial products, several major hacks and also network disruptions have occurred to Bitcoin exchanges and digital wallets.
4. The digital currency has been widely promoted in investors communities primarily thanks to its independence from Central banks and ability to be transacted directly from end user to another one without any intermediary men. This may not last for long as governments, through their Central banks, show efforts to control the largely unregulated field while private banks and other financial institutions also accelerate their involvement in cryptocurrency markets. It will wipe away Bitcoin and other digital currencies' primary advantages over traditional currencies or other investment instruments.

### Recommendation:

We recommend a SELL rating on Bitcoin.

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