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NHÀ XUẤT BẢN THANH NIÊN
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COINED IT IN

Everything you wanted to know about Bitcoin but were afraid to ask

Are Bitcoins and cryptocurrencies suitable for my retirement portfolio?

This is quite a loaded question, and the answer could be wildly subjective and would depend largely on how much you know about the asset class and your tolerance for volatility. If you don't know what volatility refers to, then Bitcoin and cryptos definitely aren't for you. Let's begin by answering a few basic questions:

What exactly are Bitcoins and cryptocurrencies, and how do they add value?

Cryptocurrencies are a digital medium of exchange. Each cryptocurrency 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 that instantaneously creates debits, credits, checks and balances over the network.

Basically, blockchains and cryptocurrencies 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.

Is Bitcoin a bubble?

Possibly... Bitcoin's price movement (almost +900%) over the past year is extraordinary. Many are concerned that such a large price movement over a short period of time, for an asset that the majority of people don't understand, is cause for concern. The primary issue is that the majority of individuals participating in the Bitcoin market are average Joes, which is

the entire reason the currency exists. However, many of these Joes are not buying the currency for the purpose of exchanging for goods or services, but are instead using it as a tool to make short-term speculative profits, thereby diminishing the currencies core utility as a medium of exchange. Many market participants may be blinded by high past performance, and irrationally push prices upwards until the movement becomes unsustainable and prices crash. This phenomenon is present throughout history, see: Chinese stock market crash, 2015. Real estate/mortgage crises, 2008. Dot com bubble, 1999-2001, The stock market crash of 1929, all the way back to the first ever asset bubble, "Tulip Mania," in the Netherlands, around 1637. A wise man once said, "if even your taxi driver is asking you for tips on a certain investment, it's time to get out."

Wait... So I shouldn't invest in Bitcoin?

The paradox is just that. You shouldn't be thinking of cryptocurrencies in terms of an investment to make money in the short term, but as a tool that will make day-to-day transactions much easier and cheaper in the future, the way Microsoft changed the office and Amazon changed retail. It's an incredibly important technology that you should pay attention to. However, if you are speculative in nature and have a "fat" trading finger, just remember that it took Microsoft 17 years to recover from its 1999 highs and Amazon 10 years, so waiting for a large downturn in price would be wise, unless you can live with losing 35% of your investment on a Friday afternoon. Buy low, sell high.

Are there alternatives to Bitcoin?

Yes, quite a few. Most cryptocurrencies are in finite supply, hence the incentive to create new networks for the purpose of solving different problems or undertaking different types of transactions. The most mainstream Bitcoin competitor is probably Ethereum, which processes transactions

a lot faster over its network, and is more than just a currency but provides a platform to create and negotiate virtual contracts, among numerous other benefits (this stuff can get quite complex). There is even a project to create a fully digital bank, where crypto loans will be issued and participants will be able to invest in these loans, called "tokens" like one would a bond. You can participate in new cryptocurrency ventures via initial coin offerings (ICOs) similar to how you initially buy shares in a company via an IPO.

How can I buy cryptocurrencies?

You can buy cryptocurrencies via digital exchanges. Also, bitcoin futures will begin trading via CME Group towards the end of the year, which is quite an exciting prospect as it will give investors access to the currency via traditional money management and trading platforms.

What are the biggest dangers/threats to this space?

Since cryptocurrencies are a direct threat to some of the most powerful institutions in the world, i.e. governments, central banks and retail banks, there is always the profound danger that these institutions could push for further regulation of the asset class, shut exchanges down or begin offering their own forms of digital currencies. What the reaction in the short-term will be is unclear, as the total value of cryptocurrencies is minute compared to fiat currencies and other assets. It could be that cryptos end up being a temporary libertarian wet dream and become undone by state authority, or create some sort of happy transactional medium between the state and private citizens, the latter only likely if the state figures out how to use blockchain to collect taxes...

Contact us for our views and research on cryptocurrencies, traditional and other alternative investments. ■