

The Soaring Crypto

What was the highest performing asset over the decade ending on January 1? U.S. stocks? International bonds? Commodities? The stock market of a random emerging nation?

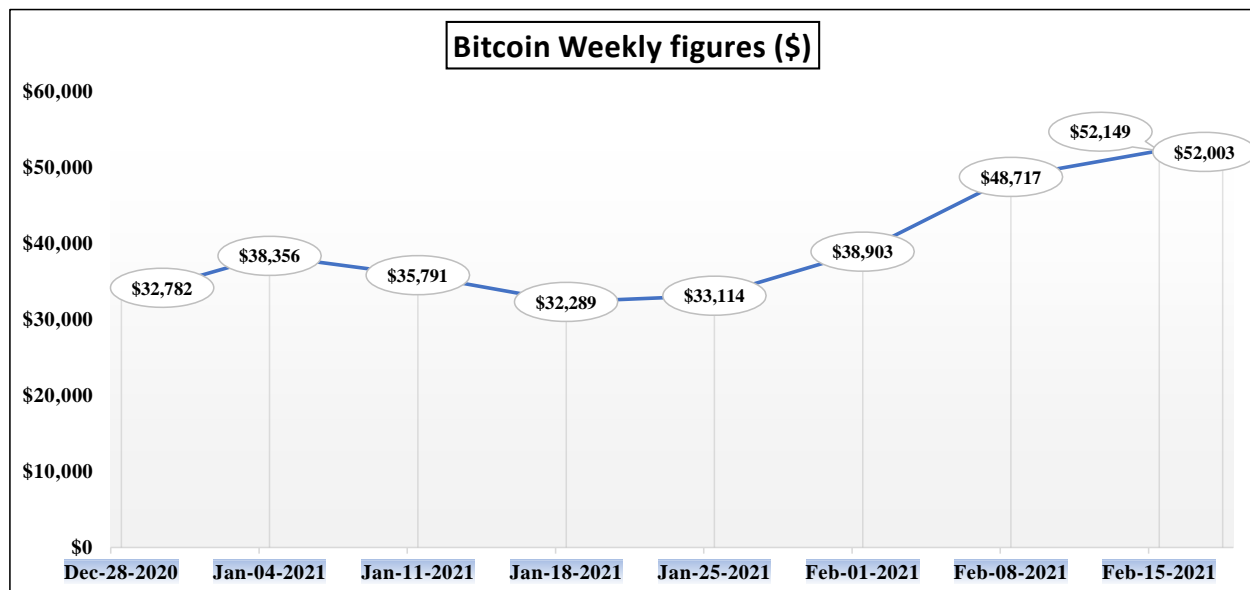
Any of those might be decent guesses, but they are all wrong. The asset (if you can call it that) which delivered the highest performance, by a wide margin, was the crypto currency known as bitcoin. A single bitcoin rose 9 million percent over the past decade.

There are a few problems with calling bitcoins “assets,” much less “investments.” The first is that they are not backed by any government—or, for that matter, any tangible asset. If you own shares in a stock, there is the actual company backing up those shares. If you own municipal bonds, there is a state or local agency that is pledged to make sure you get your money back plus interest. The value of dollars, yen, pounds and rubles are all guaranteed, respectively, by the U.S. government, Japan, the UK and Russia.

Why is that a problem? If, one day, enough people decided that bitcoins—basically entries into shared accounting systems on computers around the globe—were worthless, well, it would be hard to get anybody to exchange your bitcoins for actual currency.

There does appear to be actual fluctuation in this trust level. The coins gained 165% in the final quarter of 2020, rallied again in the first three days of 2021, reaching a peak price above \$34,000 per coin, and then suddenly fell 13% in a single day. That is orders of magnitude more volatility than even the riskiest stocks.

The second problem with Bitcoins is that it is still hard to use them as actual currency. A small number of retailers will accept them, though they appear to be a favored way to buy and sell large quantities of illegal narcotics and automatic weapons on the global marketplace. There are roughly 6,370 Bitcoin ATMs in the U.S., which theoretically will convert some of your coins into dollars, but these automated systems are causing money laundering concerns among government officials.



If you have ever been involved in a ransomware attack, you probably have some familiarity with Bitcoin. The hackers who steal or encrypt your files typically want to be paid in the cryptocurrency, although this illicit activity still accounts for only one percent of all Bitcoin transactions.

Maybe the biggest problem with having millions of dollars stored in a “wallet” on your computer is that if you lose your password, or your laptop, or you die without telling anyone else your password, then your coins—and that part of your net worth—will vanish forever. With actual investments like stocks, bonds, commodities etc., a custodian keeps careful track of what you own and provided access so you can see the value of your account at any time of the day or night.

And perhaps as an addendum, whenever an asset rises 9 million percent for no obvious reason, it is possible that we are experiencing a bubble that could burst at any moment.

Sources:

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About the advisor: Jeff Broadhurst is a wealth manager at Broadhurst Financial Advisors, Inc. He focuses on providing wealth management solutions to business owners and family stewards in the Philadelphia area. Together with his partners, he helps affluent clients address their five biggest concerns:

1. Preserving their wealth
2. Mitigating taxes
3. Taking care of their heirs
4. Ensuring their assets are not unjustly taken
5. Charitable giving.



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