

EUROPEAN MONEY WEEK 2018

BITCOIN/CRYPTOCURRENCIES BETWEEN MYTHS AND REALITIES

12/MAR/18

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CFA Institute

“Bitcoin Myths and Facts”

Cambell R. Harvey – Duke University,

16 Aug 2014

1. Physical bitcoins exist;
2. The founder of bitcoin is Satoshi Nakamoto;
3. Bitcoin is mainly used for criminal activity;
4. A lack of security plagues bitcoin;
5. Mining is a waste of energy;
6. Bitcoin too small today to be an important economic force;
7. Bitcoin is currently too volatile to be viable;
8. Bitcoin is just another currency.



CONTEXT

Blockchain Technology or *Distributed Ledger Technology (DLT)*

“a continuously growing list of records, called blocks, which are linked and secured using cryptography”, or “an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way”

Protocol



Associated Asset (Token/*Cryptocurrency*)

BITCOIN AND THE REST, BRIEFLY

- Bitcoin is the first Cryptocurrency, its status to the crypto space is much like Gold's status in relation to the world of fiat currencies
- Other Cryptocurrencies, frequently termed AltCoins, or alternative coins emerged, at times looking to offer better technical solutions compared to Bitcoin
- Currently, a number of technologically superior AltCoins exist, allowing for faster and more efficient transaction processing, more extensive types of transactions/contracts
- Should Cryptocurrencies ever be established as currency, BTC will at best have the same status as XAU in the current money environment, its practical use being difficult to match (some) Altcoins or fiat money speed and efficiency

<i>Price Evolution Scenarios</i>		<i>AltC (T+)</i>		
		<i>Continued Rally</i>	<i>Stabilisation</i>	<i>Decrease/Crash</i>
Bitcoin	<i>Continued Rally</i>	<i>CryptoCraze</i>	<i>Unlikely Conundrum</i>	<i>BitCraze</i>
	<i>Stabilisation</i>	<i>Established New Technology (1)</i>	<i>Established New Technology (1)</i>	<i>Technology Failure</i>
	<i>Decrease/Crash</i>	<i>Established New Technology (2)</i>	<i>Established New Technology (3)</i>	<i>Technology Failure</i>

IS IT...

CURRENCY

- Used as means of payment, but
- Not recognized as legal tender (except Japan!)

COMMODITY

- US Regulators say so..
- Too volatile to be a currency
- Parallels to gold

?

EQUITY

- (Some) ICO's are similar to IPO's but
- *The vast majority of ICO's are not*

DERIVATIVE

- Link to other underlying assets (Gold, Coupons, Equities, USD)

...WELL, IT DEPENDS

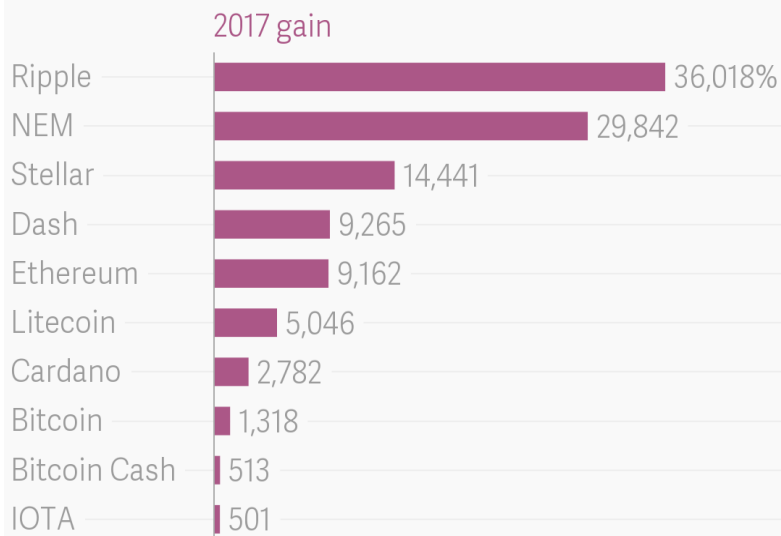
CURRENCY

- None of the “cryptos” meet all the basic requirements to be considered currency
- Yet, they are recognized as legal tender in Japan with other countries even considering allowing/issuing cryptos to function as currency
- Wide public adoption extremely unlikely, but possible in case of a major global political + social + economic disruption

SOMETHING ELSE

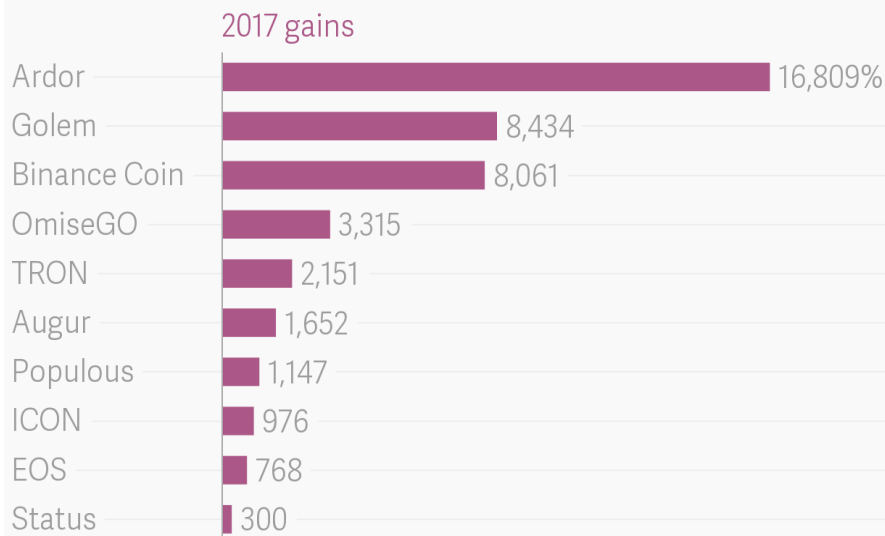
- Most “cryptocurrencies” are not issued to function as currency in the first place!!!
- ICO’s are mainly capital raising processes for various businesses (ideas/projects) more like capital markets processes
- Massive wealth made & existing in the cryptospace

2017's biggest cryptocurrencies ranked by performance



△ T L △ S | Data: CoinMarketcap

2017's biggest cryptotokens ranked by performance



△ T L △ S | Data: CoinMarketcap

*Source: www.theatlask.com

- Important blockchain projects are not issuing cryptoassets with the purpose of functioning as, or replacing, currency (fiat money)
- The difference is important for regulators going forward
- 46% of 2017 ICO's have failed already!
- *2.7bln USD raised in ICO's in 2017, less than 1% of total market cap.*

WHAT TO DO ABOUT IT

- Work on regulatory framework: USA, Switzerland, Japan, UK, Canada, China

- Get involved in blockchain projects:

Giant companies already involved according to various reports: Bank of America, Google, Goldman Sachs, HSBC, Deutsche Bank, IBM, KBC, Societe Generale, Unicredit, Rabobank, Natixis, UBS, Barclays, HSBC, State Street, Credit Suisse, MUFG, Santander, RBS, NASDAQ, Citi

- Work on understanding blockchain, crypto and applications

“Not so long ago, some experts argued that personal computers would never be adopted, and that tablets would only be used as expensive coffee trays. So I think it may not be wise to dismiss virtual currencies”

Christine Lagarde, IMF



WHAT TO DO ABOUT IT

Canadian firms are vying to launch world's first Bitcoin ETF — and they just might do it

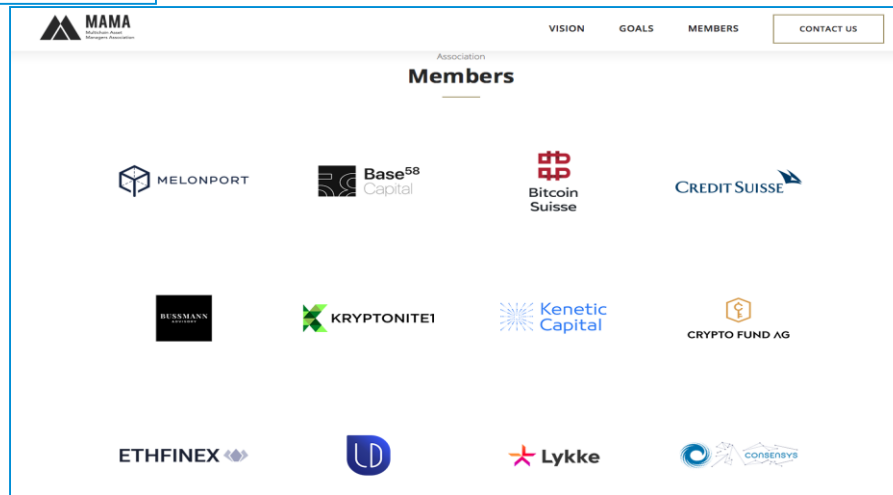
Bitcoin ETF hype meets regulator reality in race to be first

Ex-Barclays chief says banking could face its own 'Kodak moment'; urges banks to embrace fintech solutions

Twitter Says It Is Implementing Measures to Prevent Crypto Scams

By **Nour AlAli**
March 7, 2018, 2:17 PM GMT+2
From **Crypto**

- Company says it is aware of cryptocurrency "manipulation"
- Facebook Inc. recently banned ads tied to cryptocurrencies



Zugg, Switzerland now known as Crypto Valley

Valuing Tokens

As we say above, crypto-tokens are not exactly currency, and not exactly securities.

China's Crypto Exchanges Didn't Just Survive – They're Thriving

"Bitcoin is the beginning of something great: a currency without a government, something necessary and imperative." - Nassim Taleb

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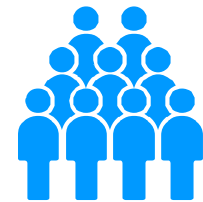


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MAJOR UPDATE NEEDED?!

6. Bitcoin assets in 2014: 7bln USD

6. Bitcoin assets now: 167bln USD, total crypto assets ~ 400bln USD

Bitcoin/Cryptocurrencies between Myths and Realities

EMW, 12 Mar 2018

1. The major breakthrough is Blockchain. The Web (Internet) survived the “.com bubble” – it is extremely likely the Blockchain will survive and continue to support innovation beyond a potential “crypto bubble”.
2. Crypto is without doubt a powerful reality, it is too late to be stopped, and soon it will be too late to ignore it.
3. All crypto is highly speculative in nature and needs proper oversight to protect consumers. An important part of Crypto’s are clear investment *no go’s* being either misleading investors or plain fraud.
Investing in Blockchain and Cryptospace should be done only with proper advice, research/due diligence, and scrutiny.
4. Opportunities are abundant, Blockchain technology having the potential to transform industries and the way we live, and 400bln USD needing adapted and adequate servicing.

Bitcoin/Cryptocurrencies between Myths and Realities

EMW, 12 Mar 2018

5. Total market cap ranks cryptospace above most stock markets (top 10 in Europe, top 30 Global).
6. Japan, USA, Switzerland and Estonia among the “early adopters”, cultures and economies that also rank high in innovation. Major international banks/financial institutions are involved in blockchain projects (private or public).
7. Crypto will either
 - Integrate with fiat
 - Replace fiat
 - Die
8. Adoption will depend on value adding capabilities and ease of use.

THE FUTURE STATE OF THE INVESTMENT PROFESSION, CFA INSTITUTE 2016

MEGATRENDS + FORCES = POTENTIAL FUTURES

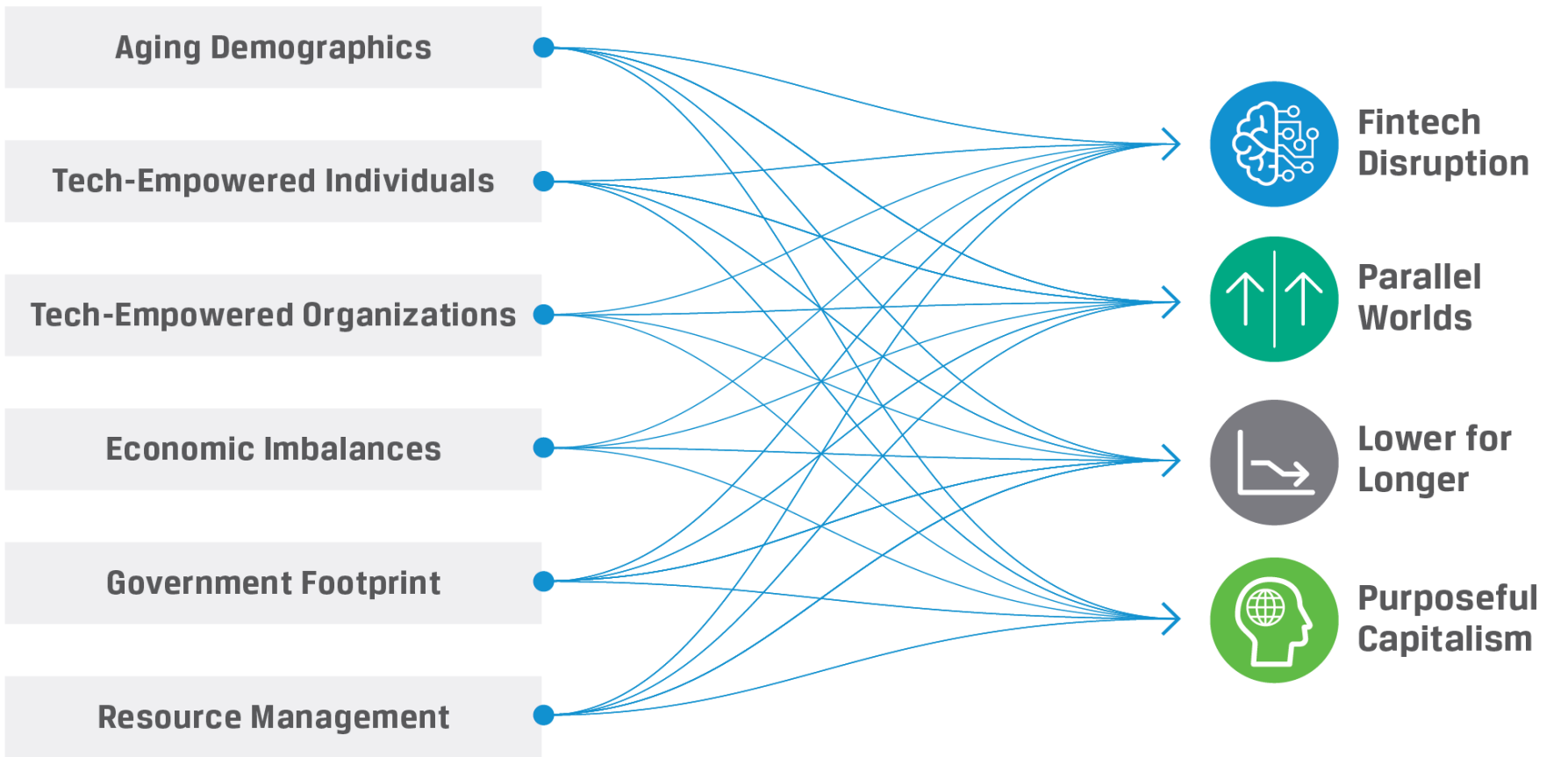
Megatrends

Big worldview changes not specific to finance

Forces of innovation and disruption specific to finance

Scenarios

Tools to evaluate industry changes



CFA ROMANIA

- CFA Romania is the local association of CFA Institute, the leading global organization of investment professionals
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- We advance our mission by promoting the highest standards of ethics, education and professional excellence in Romania

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“Among the countless finance degrees around the world, the Chartered Financial Analyst qualification has become the gold standard.”

Financial Times
13 August 2010



Courtesy of Rip Payne

THANK YOU!

12/MAR/18

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