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Bitcoinfused? What to do with Crypto

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As I mentioned in my last *Trades* blog, I gave up talking about Bitcoin for Lent. Nobody else did, and so cryptocurrencies and their poster-child Bitcoin continue to provoke fierce debate among investors. Understandably so. As the comedian John Oliver said, they combine "everything you don't understand about money, with everything you don't understand about computers".

The financial establishment has been sceptical from the start. From Nobel prize-winning economist Nouriel Roubini labelling Bitcoin the greatest of all bubbles, to Paypal co-founder Peter Thiel calling it a trojan horse for anti-capitalist forces; and yet it keeps rising. So, are cryptocurrencies here to stay and go mainstream?

It is fair to say that cryptocurrencies generally do not meet the definition of a currency. Their volatility renders them unusable as a medium of exchange for most retailers, beyond being used as a marketing gimmick or to buy illicit goods on the dark web. While you can buy a Tesla with Bitcoin, you cannot pay your taxes with it.

Jerome Powell, the Federal Reserve Chairman, this month said he views Bitcoin not as a currency, but an asset. Certainly, it has more similarities with gold than with the Dollar. Gold does not produce any income either, making it difficult to value. While there is some demand for jewellery and industrial uses, the price of gold is mainly an output of speculation in the market. For these reasons there is some debate as to whether it should have a role in portfolios.

Nevertheless, gold has played a hedging role in portfolios for decades and been a store of value for millennia. It has a history of how it behaves in times of panic, of rising inflation, of a weaker dollar, etc. Bitcoin has no such track record, and once again its volatility renders it unreliable.

What has never been in doubt is that the accounting technology behind cryptocurrencies, blockchain, would become ever more prevalent in our economy. It is this technology that has led major institutions, from JP Morgan to the Federal Reserve, to consider some form of cryptocurrency viable. While their pricing is worryingly volatile, there is still sufficient belief in them as a concept to prevent the bubble from bursting.

Coinbase is the leading cryptocurrency exchange in the US and this month listed on the New York Stock Exchange with a valuation of $100bn. Its revenues may be based on the market dynamics of an asset class that many investors view as uninvestable, but at least it has them. From them it can generate profits that could be returned to shareholders. It means they have cashflows that can be analysed and valued. In short, it is a lot closer to being an investable proposition.

In my January *Trades* post, I said that those buying Bitcoin were simply speculating that they could sell it to someone else in the future at a higher price. I still believe this is the case, but with growing acceptance from large parts of the financial establishment, the concept of cryptocurrencies is being proven. Just as investing in picks and shovels offered exposure to the gold rush without the risk of prospecting, so too the places where cryptocurrencies get traded can give exposure to the future of this technology.