

Hello Everyone,

What makes good money? That will be the subject of our next two missives.

Today, Bitcoin serves as our foil to make a point about the nature of money.

My hope is if you understand “what money should be” vs. “what money is today” you will become a better investor.

Signed Your Hmmm-The-Core-CPI-(Inflation-Index)-Came-In-At-A-10-Year-High-Today Financial Advisor,

Greg

KKOB 08.09.2018 Bitcoin—What Makes Good Money?

Eric: So, Greg, last year around this time Bitcoin was all the rage. In fact, I remember you doing about 10 shows in row explaining what cryptocurrencies were all about. Back then, you cautioned our listeners about jumping in.

Anyway, I don't have the exact numbers, but I know Bitcoin topped out at over \$18,000----and today it's trading at around \$6,500. But, you want to revisit Bitcoin today, right?

Greg: I do. And, since vacation-time is typically a slow time on Wall Street, let's do an update.

Bitcoin seems to have hit a wall in the real world, because it's not working as advertised. For instance, earlier this year, a young woman decided to see if she could live a week spending only Bitcoin. One day,

she tried to buy lunch at a local market that accepted Bitcoin. It took two hours for her payment to clear. She had to go back the next day to get her meal.

Bandon: So, it would have been much simpler for her to just go to an ATM for cash.

Greg: Sure. Another issue is Bitcoin's volatility. In an odd way, Bitcoin's previous success is a detriment to its current utility. A case in point is, in

previous success is a detriment to its current utility. A case in point is, in 2010 Bitcoin was worth a fraction of a penny. Back then, a Florida software expert agreed to pay someone 10,000 Bitcoin for two Papa John's pizzas.

At current prices, those Bitcoin would be worth approximately \$65 million. He has since lamented, "Those are the two most expensive pizzas in the history of the planet," And Eric, stories like that are legion. Thus, if you believe your Bitcoin are eventually going to go up, you're reluctant to spend them.

Eric: I could also see it in reverse. What if you're an auto dealer and last year you accepted three Bitcoin--worth \$54,000--for an SUV? Today, that Bitcoin is only worth around \$19,000.

Greg: Right It's these kinds of issues that are hindering Bitcoin's acceptance. And, it's starting to show up in the statistics.

For example, last September, we saw \$411 million worth of goods and services traded via Bitcoin. We're now down to about \$40-50 million per month in Bitcoin commerce. That's peanuts.

Eric: Wait. So, you're saying even at its peak, we were seeing only \$400 million worth of Bitcoin being used per month to buy stuff? Just for comparison, do you know how much regular money is used each month?

Greg: Oh, I don't know. On-line retail sales came in over \$3 trillion last year, and online sales are only 10-15% of total retail. And retail is only a portion of total commerce. I can't do the math fast enough, but it's multiple trillions. The point is, so far Bitcoin is a mere speck in the money universe.

Eric: So, why were so many experts wrong? I remember, people saying Bitcoins would replace dollars.

Greg: I think the hype-machine should have pulled back and revisited the nature of money itself. In a nutshell, "good money" must have certain qualities:

- It should be portable & divisible. That's why cows don't make good money.

- Money should be consistent in weight and purity. That's why diamonds don't work...the color, cut, carats, & clarity are all different.
- Money should be durable. That's why booze doesn't work...it evaporates.
- Money should be easily recognizable and accepted. That's why lira or rubles aren't money to Americans. And finally,
- Money should be a stable store of value.

Eric: So, you're saying Bitcoin—and other cryptos—don't fit enough of the parameters to qualify as good money?

Greg: Well, at least not yet. Right now, the crypto world feels more like a combination of barter & speculation than real money.

I know we're up against the clock, so let's talk about "good-money" again on Monday. Let's compare dollars and Bitcoin and let your listeners judge the merits of each. Then, we'll connect it to investment opportunities today.

Eric: Sounds good. How do people reach you?

Greg: Let's switch it up. Go to my website at zanettifinancial.com. You'll learn all about me.

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