



**Pearlstein's Corner**

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## The Bitcoin Bubble – What All Investors Need to Know

The first thing to understand is that Bitcoin is just one of the many cryptocurrencies. Because Bitcoin was early to market, it has become a generic term, like Kleenex™. However, you may run across other cryptocurrencies such as Ethereum, Ripple, Litecoin and Dash. More are coming on stream every day.

### Facts about Bitcoin and Other Cryptocurrencies

- These are digital currencies not backed by any country's central bank or government.
- They can be traded for goods or services with vendors who accept them as payment.
- Their value is highly volatile. In 2017, Bitcoin went from \$970 to almost \$20,000 U.S. through mid-December. Then it collapsed by one-third in one day, only to rebound to close out the year at \$14,500. A rollercoaster ride with a gain of 13 times – on paper.

### Next Big Thing or Fraud?

It's no wonder that at holiday parties, adherents were making bold predictions, detractors were calling it a fraud, while others were afraid of missing out.

But what is it? A currency, a means of exchange or a store of value? Or is there more to it than meets the eye that investors may benefit from rather than brushing it aside with a swift "caveat emptor"?

Like all manias it starts with a good story.

### Cryptocurrencies Satisfy the Classic Conditions for an Investment Mania

In his seminal 1978 work, *Manias, Panics and Crashes*, Charles Kindleberger said such episodes start with "the widespread adoption of an invention with pervasive effects"

that lie in the future and are hard to value.

Loose monetary policy (low interest rates for the past 100 months) can provide additional fuel for investment crazes. As prices increase, peer pressure takes over. For example, the number of hedge funds that invest in cryptocurrencies tripled from the end of August through November.

### Blockchain, The Technology Behind Bitcoin is Real, but Sometimes the Hype is Not

Cryptocurrencies run on a relatively new platform called the Blockchain. Blockchain is an open-source platform (no one person or company owns it) that acts like virtual ledger running across thousands of computers. This is one of the platform's safety features – you would have to hack all of these computers simultaneously to attack it.

Through the Blockchain, users themselves validate transactions when one person pays another, eliminating the need for a third party like a bank to process or store payments.

This technology could revolutionize future transactions of many kinds, not only for financial institutions and stock exchanges, but many others in the fields of music, insurance, medical records and vehicle registrations to name of few.

Still, the mainstream is currently having trouble adapting to this brave new world. It's not yet user-friendly and hard for many to wrap their heads around.

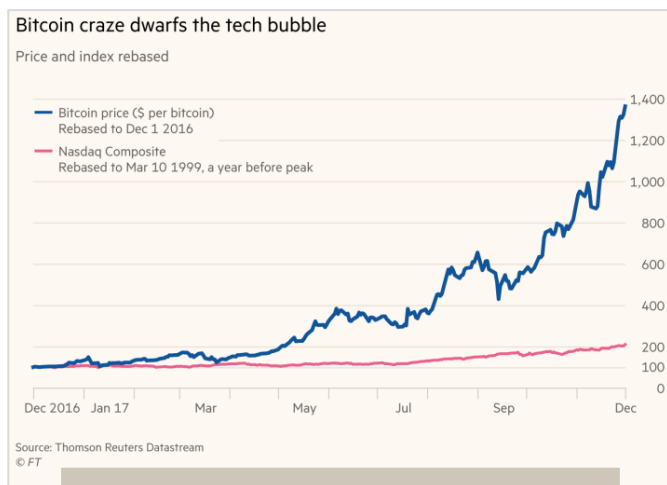
There is a good explanation of Blockchain technology on this [World Economic Forum page](#).

Link to: <https://www.weforum.org/agenda/2016/06/blockchain-explained-simply/>

## The Bitcoin Boom is Bigger than the NASDAQ Tech Bubble

In the last of quarter of 1999, tech stocks on the Nasdaq increased by 40%. By March 2000 they doubled in price. But by the end of 2002, they declined by 80% from the peak.

This pales in comparison to Bitcoin – 13X compared to 2X! Can Bitcoin reach new heights? Yes. But if history is any guide, it will likely give back its gains relatively quickly.



## Bitcoin is on a Collision Course with Governments and Will Lose

The value of all Bitcoin in the world currently equals the market value of Macdonald's and Disney combined, or \$300 billion, which seems large.

Yet, the volume of Bitcoin trading between buyers and sellers is tiny, about \$5 billion per day, compared to the trillions of dollars of daily currency trading and the trillions more in central bank reserves.

So far, Western governments have been doing very little to reign in cryptocurrencies. However, if they grow to a critical mass, politicians around the world will pay much more attention. Since Bitcoin is too volatile to be a reliable store of value and national currencies rest on the real productivity and fiscal capacity of citizens, no government is going to give up

the power of the public purse, the ability to tax.

It should also be noted that for years, cryptocurrencies have been a vehicle for criminal transactions and for avoiding government restrictions on moving capital.

At the first serious and coordinated move by governments to regulate or bank the digital currency, the price of cryptocurrencies will likely crash.

## What to do?

We're witnessing the "wild west" of a new technology. It will take some time to settle down, for governments to define their roles and for everyone to figure out the best applications for the Blockchain.

If you do want to get into the game, I would suggest not investing any more than you can afford to lose. Inevitably, some of these companies will go to zero. Others may become the new winners. It's too early to tell. So right now, it's a big gamble.

Whatever your thoughts are on the cryptocurrency market and the Blockchain, it's a good idea to start 2018 with a review of all of your assets. Nothing is cheap out there. Start 2018 fortified with context and clarity for your investments. Happy New Year!

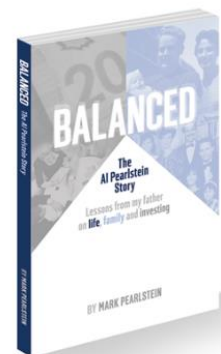
## My book is out! A happy way to start 2018

We all have life goals, and one of mine was to honour my father for all that he has done for me. So, a few years ago, I decided the best way to do this was to write a book.

I'm proud to say that *Balanced, The Al Pearlstein Story, Lessons from my Father on Life, Family and Investing* is now available.

Read more about it on my site at:

[markpearlsteinwealthmanagement.com](http://markpearlsteinwealthmanagement.com)



Do you know someone who should read this?

Some of my clients have mentioned that they've shared my newsletters with other family members, friends or colleagues. If you know someone who might benefit from this, why not pass it on?



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