

# Investment Outlook



Wealth Management  
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**Barry Kaiser, CFA, CFP, CPA, CMA**  
Portfolio Manager & Wealth Advisor

Kaiser Hay Wealth Management  
RBC Dominion Securities Inc.

780-670-2301  
[barry.kaiser@rbc.com](mailto:barry.kaiser@rbc.com)  
[www.kaiserhay.com](http://www.kaiserhay.com)

## Bitcoin: Fact or Fiction?

With every generation, there seems to be a new technology that promises to change the world. I can think back to the introduction of the internet and railroads as examples of this. Investors, though, tend to be irrational and quickly price in these changes years and sometimes decades into the future. [Animal spirits](#) tend to get the best of them. Eventually, these new technologies change the world, but for every big winner, there are many more losers along the way.

### A bubble of epic proportion

The Bitcoin bubble has come and gone at least for this cycle. Since its inception, it has already seen three declines of at least 85%. It is by far the most volatile asset class we have seen in history. By some accounts, bitcoin is 25% more volatile than the stock market.

Even the famous [Tulipmania](#) of the 16th century doesn't match up to what has just happened to Bitcoin. Since its introduction in 2009, Bitcoin has gone from US\$0.01 to US\$6,500. It nearly touched US\$20,000 last December. No matter what history has taught us about market bubbles, some investors don't seem to learn from them.

### Capitalism to the rescue

I love reading the articles that talk about the limited amount of Bitcoin and how that will support the price well into the future. What investors tend to forget, though, is that while Bitcoin is the first and biggest [cryptocurrency](#), it is far from the only one. There are now over 1,500 cryptocurrencies in circulation and more [initial coin offerings \(ICO\)](#) every week ... Capitalism has a funny way of addressing supply constraints in our economy.

### Catch me if you can ...

While I feel there is a future for cryptocurrencies, I do not know if it will be Bitcoin or not. Bitcoin has inherent weaknesses with regards to cost, speed, and energy per transaction. Some of the newer cryptocurrencies are looking to address these issues.

The wildcard will be regulation. No central bank wants to lose its control over its monetary base. Cryptocurrencies are notorious for money laundering. We know what happened to tax havens and terrorist financing when the U.S. wanted to crack down

on those activities. The U.S. government has a potent tool when it comes to global finance. Any institution that wants to operate in a global marketplace must move money in and out of the U.S., so the U.S. can effectively cut off that lifeline. Just ask any of the global banks that faced the threat of losing their U.S. banking license after the [Financial Crisis](#).

With this said, no one institution owns Bitcoin. When countries like China have attempted to shut down its exchanges and miners, new ones pop up in other countries.

### Why would anyone own Bitcoin?

For countries with histories of hyper-inflation or serial defaults, cryptocurrencies give citizens an avenue to invest in a currency that is out of the control of their central banks.

I am also leery of a world where central banks feel they can print money with few restrictions. We have seen that since the Financial Crisis in the U.S., Europe, and Japan. It hasn't ended up being inflationary, because the money never made it out into the real economy. It was there to mend the battered financial sector.

### Quote of the Month

*I think the internet is going to be one of the major forces for reducing the role of government. The one thing that's missing but that will soon be developed, is a reliable e-cash.* Nobel Prize winner Professor Milton Friedman (1999)

### The real jewel of the mania

Time will tell whether Bitcoin stays or goes. What is here to stay, though, is the underlying [blockchain technology](#) that makes everything happen. In my opinion, this technology is as big as the internet with its ability to change how our economy works. Blockchain could facilitate almost any kind of transaction. It creates a system of encrypted ledgers, which are linked and widely distributed among many users. Transferring land titles or settling securities are examples of what could be done faster, cheaper, and safer than their current process.

### Summary

The easy money has come and gone with Bitcoin, but its legacy will remain. Blockchain is the real winner of this recent bubble, because of the way it has attracted capital and talent to this fledgling industry. This will only accentuate and accelerate its adoption.

### Recommended Reading

[Bloomberg: Did Bitcoin Just Burst? How It Compares to History's Big Bubbles](#)  
[Bloomberg: What the World's Governments Are Saying About Cryptocurrencies](#)  
[RBC Wealth Management: New kids on the blockchain](#)



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