

The Rise of Cryptocurrencies: Will Bitcoin Become the Next Gold?

As bitcoin continues to hit record highs, it has garnered much attention and fuelled an ongoing debate: Is bitcoin the next gold?

The current economic environment has helped to support bitcoin as an alternative asset in the search for safety. Today, central banks continue to push the limits of monetary policy by expanding their balance sheets, while government stimulus spending has been unprecedented, increasing debt to levels not seen before. As a result, some investors have turned to bitcoin when looking for a store of value — to act as a hedge against uncertainty and the potential for currency depreciation or inflation.

Gold — and Bitcoin? — As a Store of Value

Traditionally, gold has been considered the preeminent safe-haven asset. Its qualities make it a recognized store of value: it is durable, fungible, divisible, portable and scarce. Proponents of bitcoin would argue that it, too, possesses these qualities. However, while other precious metals, like platinum, may also have these characteristics, what distinguishes gold — and now increasingly, bitcoin — is the collective belief in its shared value.

Bitcoin: The Move to Mainstream

Over recent years, one of the most significant changes has been bitcoin's move into the mainstream. There has been an increasing acceptance of bitcoin, perhaps partially driven by its rise in value. Many high-profile institutional investors and companies now hold and accept bitcoin, which has helped increase its utility. Millennials have been leading the charge to support the adoption of digital currencies¹ — attracted by the price gains, but more importantly frustrated by governments and elitists in a financial system they believe has failed their generation.

As digital payment systems have become more mainstream, even governments and central banks have begun to adopt, accept and develop digital currencies. Bitcoin is now one of hundreds of cryptocurrencies that exist today.

While it is likely that cryptocurrencies are not going away any time soon, there are reasons to exercise caution when considering bitcoin as an alternative asset. Here are three:

Unclear Valuation — There is considerable debate over what is the fair value of bitcoin, since it is simply the product of open-source software. Some argue that bitcoin lacks an intrinsic value when compared to other assets: stocks represent companies that produce goods and services with tangible value; even gold's physical properties may make it useful outside of being a safe-haven asset, such as utility in jewellery or electronics. However, proponents of bitcoin would argue that its fixed limited supply, decentralized and transparent nature, and growing acceptance has given it relevancy as a store of value.

Significant Volatility — Since its inception in 2009, bitcoin has been subject to unpredictable and drastic price swings, perhaps a consequence of being a new asset. In January alone, the price dropped by almost 20 percent on two occasions. Some note that gold experienced similar volatility in the 1970s as it became a trusted store of value; prices appreciated by 2,300 percent in that decade.

Security Concerns — Like many things of value, bitcoin has been targeted by unscrupulous individuals. Platforms that buy and sell bitcoin are often unregulated. Bitcoin transactions can be subject to fraud and theft, perhaps facilitated by the anonymity of the digital world. In 2014, the world's leading bitcoin exchange was hit by a cyberattack; customers had a significant amount of bitcoin stolen without recourse and the exchange filed for bankruptcy. Today, the controversial cryptocurrency Tether is under investigation for potentially manipulating the price of bitcoin.

For now, the risks are likely to challenge bitcoin's viability as a stable safe-haven asset. However, as the world continues its digital transformation, cryptocurrencies continue to gain increasing relevancy. Will bitcoin become the gold of our future?

1. fintechmagazine.com/digital-payments/millennials-are-driving-bitcoin-economy

CHALLENGING

THE TREND

DRIVEN BY EXCELLENCE, FUELED BY PASSION



Wes Ashton CIM®, FCSI®
Portfolio Manager, Director of Growth Strategy
604-558-6830
washton@harbourfrontwealth.com

Harbourfront Wealth Management
Marine Building, 510 – 355 Burrard Street, Vancouver, BC V6C 2G8
TF: 1 877 588-6822 Fax: 604-558-6823
www.harbourfrontwealth.com/wes-ashton/



HARBOURFRONT
WEALTH MANAGEMENT

Please note that comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances. This newsletter has been prepared in collaboration with Wes Ashton by J. Hirasawa & Associates and may not reflect the views of Harbourfront Wealth Management. This information transmitted is intended to provide general guidance on matters of interest for the personal use of the reader who accepts full responsibility for its use and is not to be considered a definitive analysis of the law and factual situation of any particular individual or entity. As such, it should not be used as a substitute for consultation with a professional accounting, tax, legal or other professional advisor. Laws and regulations are continually changing, and their application and impact can vary widely based on the specific facts involved and will vary based on the particular situation of an individual or entity. Prior to making any decision or taking any action, you should consult with a professional advisor. The information is provided with the understanding that Harbourfront Wealth Management is not herein engaged in rendering legal, accounting, tax or other professional advice. While we have made every attempt to ensure the information contained in this document is reliable, Harbourfront Wealth Management is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information is provided "as is," with no guarantee of completeness, accuracy, timeliness or as to the outcome to be obtained from the use of this information, and is without warranty of any kind, express or implied. The opinions expressed herein do not necessarily reflect those of Harbourfront Wealth Management Inc. The particulars contained herein were obtained from sources we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are not to be construed as a solicitation or offer to buy or sell any securities mentioned herein. Harbourfront or any of its connected or related parties may act as financial advisor or fiscal agent for certain companies mentioned herein and may receive remuneration for its services. Harbourfront Wealth Management Inc. ("Harbourfront") has relationships with related and/or connected issuers, which may include the securities or funds discussed in this commentary and are disclosed in our Statement of Policies Regarding Related and Connected Issuers. This policy is included in your new client package, on our website, or can be obtained from your investment advisor on request.