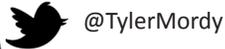




Tyler Mordy,  
President & CIO  
[tmordy@forstrong.com](mailto:tmordy@forstrong.com)



@TylerMordy

# ASK TYLER

What is money? Webster’s defines it as something accepted as a medium of exchange. But it also must be stable, portable and, importantly, widely used. The last feature is crucial. After all, currencies completely depend on a collective confidence that they actually have value — even if that conviction is a “consensual delusion”, as some claim.

Crypto evangelists believe digital currencies will have all of the above and more. These new offerings are anonymous, more secure, eliminate intermediaries, transcend national borders, carry almost frictionless transactions costs and have a fixed supply.

We, too, like our fees low and our privacy heavily guarded. However, we take issue with “fixed supply”. To us, the central boast by crypto-enthusiasts is that, compared to fiat government-issued currencies, their supply is constrained. Really? We hear about new coins and tokens daily. And, we know the rules in markets: trends, especially in financial innovation, will always be driven to excess.

If history is a guide, then, an over-supply issue will instead become the core problem. Bitcoin purists will quickly shoot back: “ah, but Bitcoin is the first and only digital currency that will matter”. Right. Try telling that to proponents of Litecoin, Ethereum et al.

To be sure, we have no doubt that the technology will be transformative. Underpinning cryptocurrencies is blockchain technology which has a variety of applications to increase efficiency, lower costs and limit fraud. We are all for that.

But all of this has a striking historical parallel: technology stocks in the late 1990s. During that mania an oversupply and overvaluation of every stock with a “dot com” suffix became the issue. Eventually, the mania collapsed under its own weight and most companies didn’t directly profit. In fact, most of them don’t exist anymore. But the game changer was the internet and its infrastructure. That did truly transform the world as we know it. The same will happen in crypto land.

## INVESTMENT IMPLICATIONS

Serious investing starts with an understanding of present and future value. Conversely, speculation begins with a premise that others will pay more for it in the future, with no regard for intrinsic value. In general, we counsel investors to stay away from the latter.

The good news is that when this mania subsides the collateral damage should be limited, simply because of the lack of credit and leverage involved. That means the banking system will not be damaged and spillover effects into the economy should be relatively minor. Ironically, the instability of the crypto-world may even bolster confidence in traditional money and banking.

For now, however, digital currencies are largely unregulated. Good thing for their promoters, as any prospectus would have to disclose the main risks, including the exogenous consideration that crypto-speculators have collectively lost their minds.

# BITCOIN AND THE FUTURE OF MONEY: TWO SIDES TO EVERY COIN

What are your thoughts on bitcoin?

December 18, 2017