BITCOIN STOCK-TO-FLOW MODEL

Bitcoin stock-to-flow model which will be referred to as S2F for the remainder of this essay was developed by the Dutch investor PlanB. He proposed in this model that the price of bitcoin moves proportionally with its S2F ratio(the ratio of the newly mined bitcoin against the existing ones using gold S2F as a standard).

Picking from the very words of PlanB himself, *“all models are wrong but some are useful”*, hence, it is important to verify the effectiveness of this model in making investment decisions. I for one believe it is a bad model because;

The S2F model underestimates bitcoin competitors (banks, gold, government). A simple government issuance against bitcoin renders the model useless.

S2F model looks at supply but merely assumes demand. Supply is just half of the market equation, the assumption of exponential demand is a mere theoretical assumption without practical proofs.

The S2F model fails for other cryptocurrencies. If a model cannot be applied to other coins/tokens, its application should not be advocated.

S2F model used a fixed pattern for gold but gold has a weighty fluctuating pattern. Also, gold’s STF does not drive its price; minimal correlation. Gold has maintained a valuation of ~$60B - ~$9T at the same S2F value of 60.

Finally, the model defies physics (the s-curve). The assumption that bitcoin should be worth $1Trillion by the year 2050 provided the global economy grows 10x is questionable. Many factors negate this, the energy requirement for mining alone is enough concern to nullify this assumption.

S2F model can only be true in a hyperinflationary economy. For these reasons, I believe the bitcoin stock-to-flow model is a bad model based merely on theoretical assumptions and empirical bias.

“Many statistics are false on its face, it only gets by only because the magic of numbers brings about a suspension of common sense”, *Darell Huff (How to lie with statistics).*