Research paper

What makes Bitcoin valuable – a guide for institutional investors

1. Fundamentals of Bitcoin

Bitcoin has one main solution to offer which is a reliable store of value. That means if Bitcoin is bought at one point in time it should have the same value or an appreciated value at one point in time later. Two other solutions can be delivered which are the function as a medium of exchange and as a unit of account. All these “solutions” are interconnected to each other and are the functions which money should fulfill. Bitcoin is money and not an asset.

This seems to be far away from the current mainstream view on Bitcoin. Bitcoin has a higher volatility than commodities and shares, therefor Bitcoin is often seen as a highly speculative asset. The issue with this description is that Bitcoin does not pay a dividend, a coupon or an interest.

Bitcoin can most appropriate compared with Gold. The big difference is only that gold has been fully demonetized after the Bretton Woods System whereas Bitcoin is not yet monetized but might be monetized in the future. Bitcoin needs therefor a new category which can be names as a growth currency. It can fulfill in theory the characteristics of money but how widespread Bitcoin will be used is uncertain and therefor the volatility expressed in Fiat money is high.

What Bitcoin distinguishes it from other Fiat currencies is that the supply of Bitcoin is embedded into the code whereas the supply of Fiat money is determined by central banks. There are several reasons to buy Bitcoin but one of the drivers for the demand of Bitcoin resulted from people who believe that a currency with a fixed supply is superior to currencies with elastic supply. It should be highlighted that the only reason why an investor holds Bitcoin in the long term is that he is convinced Bitcoin will replace at least at least partially our current Fiat money. It can be assumed that long-term bitcoin investors are commonly skeptical against Keynesian monetary policy as well as monetarism. They prefer in contrast a not so well-known school of economics which is called the Austrian school of economics. Of course, the mind set of long-term bitcoin investors also called Hodler cannot be exactly determined but to think they are “Austrians” seems like a reasonable assumption. Andreas Antonopoulos, Jimmy Song and Saifedean Ammous which are famous advocates for Bitcoin have together 636 500 000 followers on Twitter and believe altogether in the basics of Austrian School of Economics. Until know I have seen no single person which is advocate of Bitcoin and at the same time fan of Paul Krugman. To invest in Bitcoin is highly ideological and to hodl Bitcoin without truly believe in the Austrian school of economics seems difficult because it helps you to withstand the downs of the bitcoin price. The first step to successfully invest in Bitcoin is to understand the basic principles of the Austrian school of economics.

Austrian school of economics…

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