

Search

Search

The Bitcoin Triples Again

by Jack Hough
Friday, June 10, 2011

provided by

SmartMoney

The online currency has minted off-line millionaires. But for how long?

The world's fastest-gaining currency has tripled in price again. Last week, SmartMoney reported that the Bitcoin had exploded from an exchange rate near zero to more than \$10 in about a year, making it one of the top-returning assets of any kind. On Wednesday the currency topped \$30.

If returns like those seem otherworldly, perhaps its because Bitcoin is a world unto itself. To recap, it's a purely online currency with no intrinsic value; its worth is based solely on the willingness of holders and merchants to accept it in trade. In that respect, it's not so different from fiat currencies like the dollar or Euro, but whereas governments back such money, Bitcoins lack central control.

In another way, the appeal of the Bitcoin echoes the appeal of gold. Instead of a central bank, a computer algorithm dictates their supply. Today there are six million Bitcoins, a number that will grow at a steadily slowing rate until it approaches 21 million, but no more. As with gold, some see such limited supply as built-in protection against inflation that could result from runaway government budget deficits. Gold, of course, has been a store of value for thousands of years and has at least some industrial use, whereas Bitcoins are brand new and exist only on the Internet.

For some early adopters, Bitcoins have turned from a hobby into a windfall. [MtGox.com](#), the main exchange for users swapping Bitcoins for dollars and other currencies, charges buyers and sellers a fee of 0.65% for its brokerage service. (The name stands for Magic the Gathering Online Exchange, but the Bitcoin dabbler who bought the domain didn't bother to change it.) As recently as a few months ago, the site generated just pennies a day in income. By Wednesday it was making more than \$40,000 a day.

Mt. Gox, needless to say, is not a regulated exchange, so its pricing and liquidity data aren't subject to any review or verification. Mt. Gox didn't respond to an email request for comment. The site offers no customer service phone number.



**Click here for
the Currency
Center.**

The largest Bitcoin account holder -- who is, of course, anonymous -- has 297,000 units of the start-up currency, according to Donald Norman, a spokesman for the The Bitcoin Consultancy, which offers advisory services for institutions interested in Bitcoin

transactions. At \$31 per Bitcoin, that's equivalent to \$9.2 million.

Bitcoins are accepted by a limited number of merchants for services, such as website design, and some goods, such as music and clothes. The anonymous nature of the currency has also led to brazen use by drug dealers, including ones who hawk their merchandise on Silk Road, a website that can only be reached through a network that cloaks the identity of its owner. Lawmakers are not amused. "The only method of payment for these illegal purchases is an untraceable peer-to-peer currency known as Bitcoins," wrote Sens. Charles Schumer of New York and Joe Manchin of West Virginia this week in a letter to the U.S. Attorney General and the Drug Enforcement Agency.

Cash, Bitcoin advocates are quick to point out, is also an anonymous payment system used to buy drugs, and Norman says the focus on drugs is sensationalistic and misguided. "It would be sad if the growth of Bitcoin was stunted because of this criminal byproduct," he says. "Bitcoin is going to change the world in the same way the Internet did and make societies freer."

It's not clear that U.S. law enforcement agencies could regulate Bitcoins if they wanted to. The currency runs on software similar to the file-sharing software used to download music and movies, technology the entertainment industry has been trying unsuccessfully to quash for years. There's no headquarters, main server or central bank to visit, just a network of thousands of users. It's also not clear whether U.S. regulators would have

jurisdiction over a global, virtual currency. Last week, a spokesman for the F.B.I. said he was unaware of Bitcoins and would check into the Bureau's position on them. Subsequent calls for comment have not been returned.

Readers tempted to bet on the Bitcoin should resist, not least because it's unclear whether it will have any enduring worth. Beyond what fans say are the currency's design advantages, its chief appeal at the moment is surely that it's soaring in value. As of now, today is the first day in more than a week that the currency didn't hit a new high. And when the gains stall, the fall that follows may be as breathtaking as the rise.

Popular Stories on Yahoo!:

- [Things Your Neighbors Won't Tell You](#)
- [How to Handle a Bad Boss](#)
- [World's Most Expensive Cities](#)

Follow Yahoo! Finance on [Twitter](#); become a fan on [Facebook](#).

420 comments

Show: Newest First

[Post a comment](#)

Comments 1 - 10 of 420 [First](#) | [Prev](#) | [Next](#) | [Last](#)

[Max](#) 2 minutes ago | [Report Abuse](#)

0 0

It's a scam. You can't truly trust any fiat currency but at least if a government sponsored one fails you have someone to blame and overthrow. Who are you going to crucify if an online fiat disappears in the blink of an eye?

[Reply](#)

A Yahoo! User 2 minutes ago | [Report Abuse](#)

0 0

If we went to a flat tax, the trickle-down of real US currency from drug dealers to regular businesses would benefit all of us. There would be no need to "invent" currency. Don't forget the millions in gambling that would also be spent at local businesses.

[Reply](#)

[Robert](#) 3 minutes ago | [Report Abuse](#)

0 0

RU, The 'old world and silly" system that you refer to feeds. clothes, and shelters more people than the areas of endeavor that you mentioned can even dream of. If there is no incentive for self improvement, which capitalism affords, then the human race becomes beholden to an elite few who decide who eats and who doesn't. Read some history, people aren't that noble by nature.

[Reply](#)

[Is-That-So](#) 3 minutes ago | [Report Abuse](#)

0 0

Has any one seen the chart on this? It has already crashed. Suckers.

[Reply](#)

[Photocody](#) 4 minutes ago | [Report Abuse](#)

0 0

bit coins have plummeted to 13.00 bucks since this article was posted.

[Reply](#)

[Uuuuuuu](#) 5 minutes ago | [Report Abuse](#)

0 0

I am not going to bite.....Originally precious metals and bartering was our way....paper or bitcoin. neither worth a bit.....buy precious

metals..get bartering materials....be ready it is coming.....

[Reply](#)

Brian M 11 minutes ago | [Report Abuse](#)

0 0

wow, sounds like a big scam to me.

[Reply](#)

Jay 12 minutes ago | [Report Abuse](#)

0 0

Oh good a new play money that kind of exists, but doesn't so the rate can go up and up. surprised our government didn't invent this first. Like Oil futures, they manipulate the price, oil goes up and down, but gas goes up quicker and down much slower. this is all about our corrupt government.,

[Replies \(2\)](#)

Richard Eckert 13 minutes ago | [Report Abuse](#)

0 0

With gross incompetency of all the countrys of the world , except those with things like oil, you people deserve it. Next we need tatoos and satilite links to your body have your whereabouts know at all times.

[Reply](#)

16 minutes ago | [Report Abuse](#)

0 0

Bitcoin miners have driven prices of AMD/ATI 5xxx/6xxx GPUs up in the past few weeks. not cool man. not cool.

[Reply](#)

Comments 1 - 10 of 420 [First](#) | [Prev](#) | [Next](#) | [Last](#)