counting treatment of pensions caused companies to act irrationally, even in the face of their pension plans threatening the very solvency of their companies.

Companies accounted for the cost of pensions in a fairly rational way, but it was the investment returns that caused these giant agency problems. What the standard allowed them to do was to 1) assume an "Expected Return on Assets" (ERoA) regardless of what the assets actually did, and 2) enable a smoothing mechanism to deal with investment performance that deviated from the assumption. The ERoA that companies were using in the 2000s was typically somewhere around 8%. This meant that a plan with $1 billion of assets could take a direct credit of $80 million towards their earnings from expected returns (recall when I wrote about operating earnings and how it could be reasonable to recognize gains on a bitcoin treasury — this is based on the common practice of pensions). Many CFOs derived their bonuses from earnings, so they counted on those $80 million every year and were obstinately unwilling to put it at risk for any reason. Additionally, if the plan had a bad year (say a 5% loss), then the difference (13% or $130 million) would be amortized over the future working lifetime of the employees, typically fifteen years. One bad year would then bring an annual loss of about $8 million a year, but this would be offset by very good years as well. As long as the funds were averaging 8%, the CFOs were managing reliable earnings. What this accounting treatment did was cause the tail to wag the dog. They chose equity-heavy strategies that would have a good chance at achieving the 8% per year, which meant that any significant use of bonds was out of the question. The moment I realized that no company was going to adopt a risk strategy for their failing pension systems, I did what the CFA ethical guidelines told me to do, which was to disassociate myself from it entirely as a professional. This led me into a new field of risk and a new set of perverted incentives and bad accounting standards.

If bitcoin is going to help the current financial system transcend the problems of previous systems, then the institutions that wish to utilize it are going to need to develop optics and metrics that demonstrate success and failure. For pensions, it might be "overall funded status" or "projected time to termination". For companies using it on their balance sheet, they will require a redefinition of balance sheet strength, emphasizing future value over present value. In structured credit, it will require a redefinition of credit quality, factoring in the impact of bitcoin on seniority and subordination. In BlackRock's case, it might be their client's overall allocation to bitcoin. In the absence of these new optics, I would expect to see any institution's efforts to take advantage of bitcoin as temporary, and they will be no more resilient to a calamity than they were before their participation in the space.

Acknowledgements

I could not have written this book without the unyielding support of my wife and two daughters. Taking time off from traditional wage work is not an easy decision for a family, but it took a particular strength from my wife, who had to trust that it would all work out. My family was my absolute rock. They listened to all of my musings and ideas before I could unleash them on meetups, group chats, blog posts, and podcasts. I want to sincerely thank those who volunteered to read the book and gave feedback. Your comments, thoughts, criticisms, and engagement were more valuable than any of you realize. Additionally, a heartfelt thanks to everyone in my bitcoin community: from my local meetups to my podcasts — particularly Rock Paper Bitcoin. Thank you for letting me talk about this thing for so long. Thank you especially to LonelyPumpkins and Boomer for helping me proofread. Thank you to my dear friends on the Intellectual Silk Road, you guys know who you are. Finally, thank you, God.