

Don't Let Today's Digital Gold Rush Pass You By

Retrieved Friday 21st of July 2017 07:28:44 PM

Yesterday, two of the internet's largest black markets were shut down. Hidden on the "deep web", and accessible only through an anonymising protocol known as Tor, Alphabay and Hansa were global drug, gun and other miscellaneous contraband brokers. Their currency of choice? Bitcoin.

I'd like to share with you today a from Sam Volkering's new book, *Crypto Revolution*, on how bitcoin found its initial support from illegal "darknet" markets. One such market outshone all others and became hugely successful before its collapse – the Silk Road.

A secretive online marketplace for drugs, guns, hitmen and fake IDs... This was an online marketplace where you could buy and sell illegal items. But easily the most popular goods for sale were drugs. Weed, hashish, ecstasy, MDMA, cocaine, heroin... whatever your poison, it was available.

Unlike dialling up a dealer and having to deal face to face with a criminal, people could simply jump onto their computer, order some Class A narcotics and have it sent to them via a dead drop location (if they were smart).

They could do it all online, and importantly with no paper trail and at the time 100% anonymously. Imagine that. Unfettered access to any drug you could think of, and the authorities had no idea this was going on right under their noses — at least in the early days.

An illegal community existed online where people could freely buy and sell illegal goods and services. It was all done with complete anonymity and safety, and there was no monetary trail to follow.

It's was the perfect, no, the ultimate system for nefarious characters to operate. And it was real. We saw it. We didn't buy from it, but it would have been easy. This market existed on the 'deep web'. Its name, 'The Silk Road'.

It was in effect the ultimate black market in the deep, dark parts of the internet that most people don't even know (and don't want to know) exists. And the thing people most wanted to know was how could they get away with it?

But what is this 'deep web'? The deep web is the parts of the internet you've never seen. It's the bigger part of the internet, the uncatalogued part, the part you don't want to know about and don't want to visit. It's place online where websites can exist under the radar, unknown to the masses. Often it's run through a TOR network.

That's an 'Onion Router' network.

Picture an onion. Cut it open. Peel back the first layer, what do you get beneath? More layers. This layering is the framework on which the deep web is built. You can go through one layer, only to find another layer and another and another. Meanwhile the IP address is bounced from server to server around the world. It's virtually impossible to find and track down. And sites change location all the time so as to not be found and shut down by the authorities. And even when these kinds of sites are found, two more spring up in their place. It's this kind of growth and evolution of the deep web that's made it far bigger than people realise.

Estimates are that the 'visible web', the web you see through Google or Bing, is around 4% of the information available on the internet.

The remaining 96% exists in the deep web.

It's hard to track, nearly impossible to index. But it exists. It's deep, it's dark. It's incredible really. At around 500 times the size of the surface web, the deep web is the perfect location to hide an illegal drugs and firearms website.

Mind blown yet?

But what makes the deep web and in particular the Silk Road so fascinating was the ability for it to be anonymous and virtually untraceable. That realisation that someone can go online, buy drugs and have no money trail was astounding in the modern world — but not unexpected.

Most people couldn't get their around the fact this site could operate as a market yet with no financial institution, no kind of account or 'traditional' payment methods (like cash) attached in order to pay for the drugs and guns.

To buy and sell on the Silk Road, users paid and received 'currency' in Bitcoin.

While many people assume one of the earliest exchanges of Bitcoin for goods was for a couple of pizzas, the reality is it was more likely for drugs and guns in the deep web. But we'll never know for sure. And that was the appeal of Bitcoin on the Silk Road in the deep web. No one was sure of anyone or anything. The only thing known for sure was that a mysterious operator by the handle 'Dread Pirate Roberts' was the main administrator of the site.

It was the ultimate trustless system, it was the ultimate trustless currency. There was no bank, no bank account. It was a cryptographic token exchanged from an anonymous wallet address, sent to another anonymous wallet address. Then goods were sent to an anonymous user at an anonymous location working off a computer that could exist in Lithuania one minute, the US the next minute, Germany, Bolivia, the Czech Republic, Bermuda and Kazakhstan, all within the space of minutes.

In the early days around 2010 and 2011, the Silk Road was the poster child for everything the establishment hated about Bitcoin. It still kind of is today as well.

Once authorities got wind of the Silk Road they decided very quickly it was bad news.

Due to its unique property of anonymity (at the time) Bitcoin was clearly the obvious choice for criminal exchange on the Silk Road. But don't forget, before Bitcoin, cash was the king of the criminal world. So for every negative aspect of Bitcoin being the currency of choice for bad actors, just remember cash did the same thing before it — and no one seems to have an issue with cash.

The Silk Road was an incredible, revolutionary operation. Sure it was illegal, but its very existence helped to fuel the rise of Bitcoin from the deep web into the public consciousness.

It was a salacious story. A mysterious part of the internet, 500 times bigger than what most people realise. A dark, secretive website where anyone could buy drugs and guns from the comfort of their computer. And the unit of exchange underpinning it all, fuelling the fire and making the criminals wealthy, was a new, mysterious digital currency called Bitcoin.

You couldn't write a better if you were trying to make a blockbuster Hollywood movie. But for those operating in the deep web and on Silk Road you had access to drugs, guns, fake IDs, human trafficking, hitmen... and worse. It was all there for sale on the 'deep web'. And the 'money' flowing between the buyers and sellers was Bitcoin — all because it helped the buyer and seller operate commerce with complete anonymity.

By the time Bitcoin began to hit its incredible price highs in 2013 it was well known amongst the deep web community. By 2013, the Silk Road had been in operation for two years. It had already made a lot of criminals wealthy. And it had done so accidentally. If it cost \$100 for a gram of cocaine in 2011 that would have been anywhere from 100 Bitcoin to 5 Bitcoin.

For a drug dealer who received 100 Bitcoin in 2011 and held on, by 2013 that would have been worth \$100,000 — or 1 kilogram of cocaine. You can start to figure out now just how this drew the ire of authorities — for once, they weren't making all the money.

The development of the Silk Road actually started around August 2010. At that point in time one Bitcoin was worth just 7 US cents, and a gram of cocaine would have set you back (based on a \$100 price) 1,428 Bitcoin! Fortunately for buyers of drugs, the Silk Road officially launched in February of 2011.

By then the price of one Bitcoin had already increased more than 1,328% to reach the lofty heights of US\$1. So those Bitcoin could buy a lot more drugs than they could have done just six months earlier — a great moment for buyers!

All this was going on under the noses of everyone. Until 1 June, 2011.

It was on this date the most significant news articles in the history of Bitcoin was published on the website Gawker, by the author, Adrien Chen. The title of the piece was, 'The Underground Website Where You Can Buy Any Drug Imaginable.'

The article was an op-ed piece about Silk Road. That was the main focus. But it was the other detail, the new, crazy 'currency' in the article, which really caught everyone's attention. Chen uses a real world example of how easy it was to buy drugs on Silk Road, 'Mark, a software developer, had ordered the 100 micrograms of acid through a listing on the online marketplace Silk Road. He found a seller with lots of good feedback who seemed to know what they were talking about, added the acid to his digital shopping cart and hit "check out." He entered his address and paid the seller 50 Bitcoins—untraceable digital currency — worth around \$150. Four days later the drugs, sent from Canada, arrived at his house.'

The article on Gawker went viral. It became one of the most talked about articles of 2011. It received coverage on a few major news sites, but the mainstream was still oblivious to what was going on.

The tech community was abuzz with the uncovering of the Silk Road, but even more so with this 'untraceable digital currency', Bitcoin. It instantly grabbed the attention of technologists and futurists as many quickly came to realise that this was the early stages of something serious, something transformative, something disruptive — something with the potential to long term completely revolutionise the entire global financial system.

What was even more insane about Bitcoin was the fact that it was 'money' in the digital world that you could actually use to buy things and receive payment for things. And it was untraceable.

If you wanted you could convert it back into fiat currency. And you could 'mine' it — in other words you could create it yourself out of thin air.

While not the idea or central premise of Bitcoin, the attractiveness to make some quick cash was all too tempting.

And then just to top things off, it was the impossible made possible.

As a child your parents often tell you that 'money doesn't grow on trees'. This usually comes after you plead for a few bucks to buy something you really want. And as a life lesson they tell you no, money doesn't grow on trees. Well technically they were correct. That is until Bitcoin came along.

Bitcoin allowed users with the right technical proficiency and the right computer equipment to rip that money off the money tree. It was the ability to be your own royal mint, to print your own money.

From the very beginning you could mine Bitcoin. Your reward for solving its algorithm was blocks of Bitcoin. And as each Bitcoin was worth real fiat money, each block was worth something.

People began to realise this in fact was the mythical 'money tree'. You could 'mine' Bitcoin from nothing and instantly by doing this you would have something that was worth real money.

These early days held incredible parallels to the great gold rush era. Those in the know flooded to this 'digital gold' and things got a little crazy.

When Chen published the article about the Silk Road on Gawker, Bitcoin was trading at US\$9.21. After hitting US\$1 in February, and with the growth of The Silk Road and the deep web awareness of Bitcoin, it had increased a further 821%.

But just 10 days after the release of Chen's article the price of Bitcoin hit US\$17.61. That's a 1,661% rise from February and an incredible 25,057% from August 2010.

In just 10 months the price of one Bitcoin had gone up 25,057%. This was the first massive run for Bitcoin. With such a short history it had become a cult hero in the digital world. It had all the hallmarks of the perfect financial instrument for anarchists, libertarians, anti-establishment movements — it was the ultimate disruption to global finance, arriving at a time when people wanted nothing more than to 'stick it to the man'.

But its rise didn't last...If you'd like to continue reading Sam's book, [click here](#).

Have a great weekend!

Until next time,

Boaz Shoshan
Editor, Southbank Investment Research