Is Bitcoin ed Toward a Civil War?

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Bitcoin has had quite a few years.

It's been the best performing currency in the world. It's been the worst. It's been the most volatile. It's turned teenagers into millionaires without them leaving their bedrooms. It's even threatened to overtake gold as a vote against the traditional financial system, with one bitcoin becoming more valuable than an ounce of the yellow stuff.

Quite a *palmarès*, to steal a phrase from the cycling community.

What next?

Perhaps… as strange as it sounds… the bitcoin world could be about to split in two. Are we on the verge of a bitcoin civil war?

A weak link in the blockchain

We could be at a fork in the road, during which an ideological rift opens up, bitcoin splits up and essentially becomes two different currencies. It's thanks to something called "Bitcoin Unlimited".

To explain what that is, we need to take a quick step back and explain a little about how bitcoin works. You probably know it's basec on the blockchain. A blockchain is a distributed ledger. It's essentially a network of computers all over the world that verify transactions.

That means every transaction is recorded. And every bitcoin has its own "family tree" of transactional history going all the way back to its inception. That's one of the big allures of bitcoin.

Think about regular currency. Do you know where the £10 note in your wallet came from? Who owned it before you? And before that? Of course not. We can't trace the origin of the money we use. That's because most of it was created out of thin air by the banks – lent into existence via the fractional reserve system.

Either that, or it was created by the Bank of England through one of its interventions in the markets.

In both cases it's not in the authorities' interests for you to know where the money came from. (Though it might be in their interests t be able to track, control and tax every transaction – a story for another day.)

Bitcoin is different. The blockchain enables us to know how and where (but not by whom) the currency has been used. That helps demonstrate a key difference between bitcoin and fiat (centrally controlled and issued money).

But it comes with problems. It means each transaction needs to be verified. The distributed network bitcoin is based on cannot cope with the number of transactions we've been seeing in recent months. There's a backlog. Its popularity is creating volatility, which is straining the network.

That's ironic. But it's a good problem to have, on one level. It's caused by people voluntarily opting to use bitcoin.

Right now the network can only handle seven transactions per second, according to Bloomberg. Compare that to Visa's 24,000 and you see the problem. What's the solution?

One answer has been put forward by a faction known as Bitcoin Unlimited. Its idea is to create bigger blocks of currency – batching up transactions and processing them all at once. It'd probably be quicker. But not everyone likes it.

Another solution is to open up channels outside the main ledger. You'd still be able to use bitcoin. But not every transaction would b recorded in the blockchain.

To me, both ideas are messy. They tinker with the very idea that I've always considered bitcoin's biggest strength – the individual transaction "family tree" of each unit – particularly in an age where we've all been forced to question what money is and how it works.

It’s also clear that though bitcoin has no issuing authority or centralised custodian… power is increasingly becoming concentrated in a smaller number of hands.

Perhaps that was to be expected. Technology might be disruptive and distributed at first. But it also tends towards consolidation (look at how a handful of companies like Google, Amazon and Facebook disrupted, then dominated, so much of our internet use).

Perhaps we’re seeing something similar with bitcoin. As its value increases, and the commercial incentives grow, a smaller and smaller number of people are able to exert a bigger influence on how the currency operates.

That’s happening in this case. Bitcoin Unlimited is canvassing for support. If it gets enough, it could split the currency into two groups. “We need to get to 60 or 70 percent of miners on board to activate Bitcoin Unlimited.” Roger Ver, a large bitcoin holder known for reasons unknown to me as “Bitcoin Jesus”, told Bloomberg. “Combined with others, I’d say we’re already close to halfway to our goal at this point.”

It may seem technical. And it is. But that doesn’t mean it won’t bring about a schism in the Church of Bitcoin. (If there’s a Bitcoin Jesus I reserve the right to use that metaphor.) We’ll watch the story carefully. And I’ll ask Sam Volkering, who has recommended bitcoin as a long-term holding, to write to you soon with his analysis.

Using Twitter as a political weapon

I told you earlier in the year I think we’re living through the world’s first cyberwar. Hacking and leaking have become commonplace.

But so have hacks that seek to mock or warp public opinion. It’s not just the case of acquiring data. Cyber-hacking-propaganda is a real part of the political world. Earlier this week several Twitter feeds were hacked and used to disseminate anti-Western/pro-Turkish messages.

The likes of BBC North America, Forbes and De Welt had their feeds hacked. The hijacked accounts published messages including the hashtags “NaziGermany” or “NaziHolland”.

On one level, it could be a fairly innocuous story. It could be just hackers messing around trying to cause a bit of chaos. On another level, it’s part of a growing trend whereby political and diplomatic tensions quickly escalate to cyber conflict. I doubt we’ve heard the last of it. It might not be good news for the world, but it all serves to prove our point that owning the right cybersecurity stocks could be a good move in 2017 (it was in 2016).

Yellen raises rates again

There’s nothing like a rate rise to make you realise just how much central bankers are making it up as they go along.

US rates moved to 1% on Wednesday evening. Huzzah! Will they ever see 2% though? I wouldn’t count on it. Not for a long time, anyway.

The Federal Reserve only really seems interested in raising rates when the stockmarket is on a high. While GDP growth, unemployment figures and inflation are all largely unchanged from the end of last year, when the Fed decided *not* to raise rates so quickly… well, the markets are have now reached all-time highs.

The question is, were inflation to take off and the market to suffer a sharp pullback – would the Fed *still* be willing to raise rates? Or do we now live in a world in which only rampantly positive stockmarkets can withstand rates inching up? Who knows? If Akhil Patel is right and we’re on the verge of a big breakout to the upside in the stockmarket… we might have to wait a long time to find out.

Until next time,

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