

Bitcoin Is Bad Money

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We've written a lot about cryptocurrencies, largely about bitcoin, here at *Exponential Investor* – and it's certainly a big theme for our publisher. I don't agree with my colleagues on everything – but I'd certainly encourage you to read their views on cryptos, as they're very serious about this asset class. Even if you're not an investor, it's a field you need to be aware of.

But, in all the articles I've written about this subject, I don't really feel like I've ever explored my personal views thoroughly. So, today that's exactly what I'm going to do.

It might seem controversial, but I'm afraid I really don't like bitcoin.

There are over a thousand cryptocurrencies (which is a problem, in itself). Bitcoin is the oldest and largest of these, being worth roughly half the cryptocurrency market's total value. While my beef with bitcoin doesn't apply evenly to all cryptos, many of the problems are systemic – so investors in all such currencies should take heed.

Now, I'll give you a rundown:

Beef 1: bitcoin is bad money

As we've [explored in previous articles](#), money has to do a few specific things. It must be a medium of exchange, a store of value, and a unit of accounting.

Bitcoin fails spectacularly on all those counts. In my view, that means it doesn't really work as money. Let me break down why these problems exist.

Firstly: a medium of exchange. If bitcoin was a useful medium of exchange, then the range of venues which accept it would be rising over time. However, we in fact see the opposite. Bitcoin was never very useful, and it's getting less useful over time. Maybe the recent attempts to speed up transaction times will turn the tide, but we're still a very long way from a time when you can swap your Mastercard for a bitcoin wallet.

As well as the acceptability issue, there's the issue of convenience. On the odd occasion when I've been given reason to consider buying bitcoin, the faff of the process has really put me off. Admittedly, the rise of support services is starting to change this. Coinbase's recent \$100m raise is just one example of how this market is maturing – hopefully addressing some of the convenience and security issues, for ordinary users.

Secondly: a store of value. Bitcoin is fluctuating wildly – and always has been. Although its long-term rise has been enormous, there have also been spectacular, sustained crashes. In terms of being a reliable place to keep your cash, it certainly doesn't come up to any of the respected global currencies – such as the Swiss franc, the euro, the dollar, or even the beleaguered British pound. As such, it's more of a tool for speculation, than a store of value. I admit, you could also say much the same about gold – but at least that's got a much more substantial history, and some utility (for jewellery, and suchlike). By contrast, I've never seen anyone wearing a bitcoin ring.

Thirdly and finally: as a unit of accounting bitcoin is pretty much useless. Its wild fluctuations mean that you can't really denominate anything in bitcoin, except perhaps other cryptocurrencies. This is similar to the issues described above, but it's more about short-term movement than a lack of reliable long-term value. If you priced groceries in bitcoin, you'd be forever walking the aisles with a labelling machine.

So if bitcoin isn't really working properly as money, then what is it? As I touched on earlier, bitcoin is primarily of "value" because of its use as a speculative tool. It's a commodity which is in limited supply, and seemingly expanding demand – leading to price increases. At present this is causing an apparently unstoppable rise in bitcoin's value. However, it's an investment truism that "the trend is your friend; till the end, when it bends". If the value of something is simply determined by the value other speculators place on it, then the market has moved away from the fundamentals.

Yes, fiat currencies have many disadvantages – not least that they tend to get debased by governments, to get out of temporary political funks. Yes, we do need to look at the opportunities that cryptocurrencies provide for us, as a society. But bitcoin isn't really doing the job of money. Therefore, it isn't filling the hole left by the failure of the fiat currencies.

Now, if that was the end of the story then I still may be tempted to take a punt. But frankly, there's a lot more wrong with bitcoin than just that – and we'll have more beef, tomorrow. Meanwhile, if you're keen to profit from this sector (without falling foul of bitcoin's risks) then you'll want to hear from my expert colleagues, [on this link](#).

Have you got beef? Please let us know – andrew@southbankresearch.com.

Best,

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