Money isn’t what it used to be

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Is the cryptocurrency rout over? Things looked dire for a while there.

The **bitcoin** price tumbled over a third from over $3,000 to below $2,000. Then a three-day $400 rally followed. With that sort of volatility you can’t really call the bounce a stabilisation of the price yet.

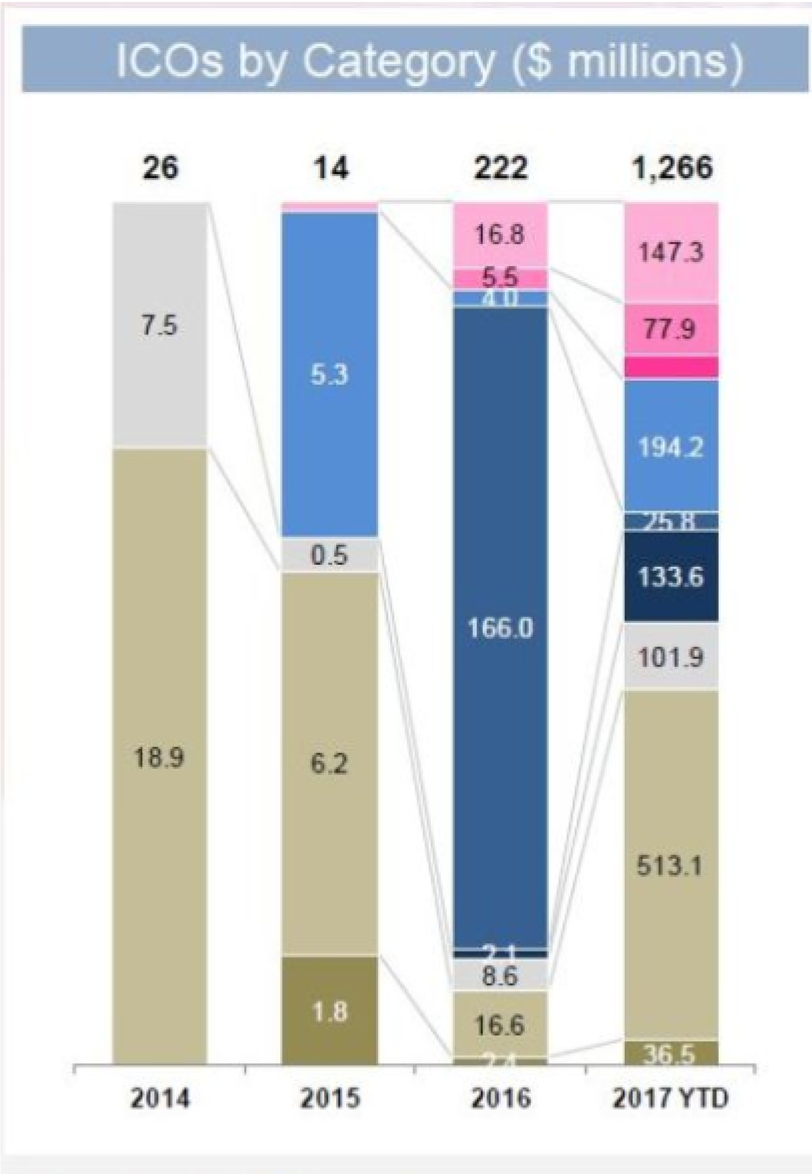
There are plenty of narratives which fit the situation. For example, Forbes profiled the famous investor Bill Miller, who put 1% of his net worth into bitcoin in 2014. Having generated around 1,000% returns, that means two things.

First of all, he can sell a small stake of his holding and turn the remainder into a “free option”. After selling the value of his initial stake, the remainder of the investment is “free” in the sense that, if it goes to $0 it won’t cost him anything because he’s already sold out the value of his initial stake. This is a popular trading strategy and it explains why investors take profit, even when they’re optimistic.

The other factor to consider for big bitcoin investors is diversification. After a 1,000% increase, the bitcoin portion of Miller’s net worth would be getting uncomfortably large. Huge swings in the bitcoin value can become the make or break of his net worth. No former funds manager is comfortable with that. (Bitcoin is also the top holding of Miller’s hedge fund according to Forbes.) The obvious way to return his net worth to a more stable and diversified portfolio is to sell a chunk of bitcoin.

By now you probably know it’s not just about bitcoin these days. There **are so many cryptocurrencies popping up** it boggles the mind. Ethereum co-founder Charles Hoskinson told Bloomberg “it’s a ticking time bomb”. Hoskinson argues that there are multiple cryptocurrencies with dangerously similar features. You don’t need so many. Some will disappear.

This chart from Bloomberg shows how fragmented the crypto market is becoming.



Source: Autonomous NEXT analysis

The surge in the number of coins is also causing the total value of cryptocurrencies to skyrocket. It went from $60 billion to $80 billion last weekend alone.

With so many coins to choose from, you need a guiding hand to make your move. Only some of these coins are likely to soar, even if most manage to survive.

Our own Eoin Treacy and Sam Volkering have such a guide here. It tells you which three cryptocurrencies to buy, as well as explaining the pitfalls and tricks to investing.

What cryptocurrencies fear most

The world is waiting for the government crackdown on cryptocurrencies. After all, governments are cracking down on their own cash too. More on that in a moment.

Although cryptocurrencies are difficult for governments to get a grip on, there are still plenty of ways to meddle. Governments already control the exchanges between currencies and cryptocurrencies. This allows them to track who buys and sells them. It also allows them to shut down or influence the primary way people go into or get out of cryptocurrencies. Many people hold their crypto coins inside the accounts offered by these exchanges, despite the Mt Gox disaster showing how dangerous this is. Sam shows you how to protect your holdings properly here.

The point is that monitoring these accounts and implementing tax is easy for governments to do. Given one of cryptocurrencies' biggest strengths is their anti-government nature, all this could devalue them enormously when the government makes a move.

For some reason, the Australian government has decided to allow people to spend their cryptocurrencies without it being a taxable event. In other places, when you spend a bitcoin, you are actually selling it for money (which incurs a taxable capital gain) and then buying something with that money. It's inconvenient enough to weaken the concept of a cryptocurrency itself.

Soon cryptocurrencies will have to decide whether they want to operate inside the government sphere or outside it. Given the end to cash's reign of the black market, the power of secretive cryptocurrencies could boom.

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The global crackdown on cash continues. If a newsletter writer had emailed you back in 1845 with the prediction that the government takeover of Scottish banknotes would end in the abolition of cash, it would've sounded rather amusing. But now we face the real possibility that anonymous, private and untraceable transactions will come to an end in a decade.

The government will soon know everything about your spending habits. There isn't much you can do about it. What does need to be done is laid out here.

Even in the most unlikely places, the war on cash is a frontline issue. **India's ban on large denomination cash notes** sent rural microfinance loan repayment rates from 98% to 50%. Microfinance company shares plunged. The growth rate in lending fell from 80% to 13%. The recovery has begun, but the damage is done.

All this was supposedly designed to fight corruption in India. Because large denomination cash notes are the only way to pay off officials…

The irony is that many countries rely on corruption to function. During my work as a flying trapeze artist in 2016, the company forgot to bribe the right customs official and all foreign employees were deported. Try starting a business in most South American countries and you'll find it's nigh impossible without greasing the wheels of government.

In Europe, the plans to crack down on cash hit an amusing snag called public opinion. The European Commission asked the public "How would the introduction of restrictions on payments in cash at EU level benefit you, or your business or your organisation?"

This is without doubt the stupidest question ever asked. How can a restriction to pay help anyone!?

The fact that anyone bothered to reply was a surprise in itself. 99.18% of the 30,000 respondents chose the "no answer" response. There was no option to vote against the measure. Although it's common knowledge most Europeans don't want government fiddling with cash.

But it's too late anyway. There are already restrictions. And it's not just government pushing. As always, the private sector is seeking to profit from the government policy.

The Wall Street Journal is reporting that Visa is bribing companies to stop accepting cash:

> *Visa says it is planning to give $10,000 apiece to up to 50 restaurants and food vendors to pay for their technology and marketing costs, as long as the businesses pledge to start what Visa executive Jack Forestell calls a "journey to cashless."*

With cash on the way out and cryptocurrencies cringing in anticipation of regulation, the future doesn't look bright for freedom. Then again the legalisation of drugs is proceeding steadily and profitably. It looks like *Brave New World* is in the lead over *1984*.

Until next time,

Nick Hubble
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