Beware of Bitcoin's Digital Siren Song

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POITOU, FRANCE – Our in-house expert left us this morning; we have no update on [his cryptocurrency speculations].

He and his family boarded the 6:22 train to Paris, en route back to Florida.

About a half hour after we had taken them to the station, the phone rang:

“Uh… Dad… the train has stopped. They’re saying something about a cow on the tracks.”

Suddenly, all his careful rehearsals were upstaged. The plot had changed.

The tracks had been laid, sturdy and straight. The locomotive – a new one – was strong and dependable. The conducto
his job. The passengers were in their places.

All was set for a trouble-free run on the Limoges-Poitiers line. But the cow miscued. As it turned out, the train hit the po
… the connection was missed, and the whole had to be rewritten.

Jiggered and Jived

Things do go wrong from time to time.

The actors get on a clear stage, expecting a smooth reading of *Macbeth*. And then… without warning… some clowns ru
proscenium and you have *A Night at the Opera*.

The plot looked like it might be changing in the stock market yesterday, too.

Voices shouting out their buy and sell orders had a new tone. Doubt. Not fear. Not panic. Just doubt.

The Dow fell 203 points, a bit less than 1%.

“Equity rout deepens,” reports Bloomberg, either exaggerating or anticipating.

But why?

According to no less an authority than the president of the United States of America – and we can’t think of less of an a
the U.S. financial picture has never been brighter.

Stocks are still near record highs. Unemployment is below 5%. Inflation is below 2%.

As for stocks, they have never, ever been higher, according to stock market analyst John Hussman of Hussman Funds

Corporate profits can be jiggered and jived by accountants. But not sales, says Hussman. And right now, the price-to-sa
(P/S) ratio for the S%26P 500 is telling us that stock prices are more expensive than they were at their pre-cash peaks
1999, and 2007.

Margin debt – the debt brokerage customers take on to lever up their gains – is at a record high, too. And national debt.
corporate debt. And consumer debt.

What could go wrong?

Fantastic Show

Are you kidding?

The days of theater fires and unplugged cables are supposed to be over. Now, we have the Fed carefully guiding, contr and protecting its fantastic show.

If even a sparrow, watching from one of the booms or stage supports, should get woozy and fall, the Fed will be there t

And we have the Republican Party, too – the party of blue suits, cronies, economic growth, and financial prudence. It's of both houses of Congress, making sure the politicos don't flub their lines.

And, of course, we have Donald J. Trump in the White House, a no-nonsense impresario-in-chief with vast private-sect experience with excess debt.

So rest easy…

And to make things even better, we have the cryptocurrencies – the biggest innovation in the money world since the mi the first gold coin about 3,000 years ago.

Now, at last, we have real money.

But wait… If the feedback from Dear Readers in the mailbag is any indication (see below), the cryptos can trip up, too.

Thugs and Scofflaws

One reader says: "Cryptocurrency is [no] different than the fake money of all the currency issued by governments.

"I am happy for your son making such a killing on bitcoin but it seems you are now promoting that which you have been for the few years I have been reading you. How is this any different than fake stocks, cash, etc.?"

"Zero intrinsic value," says another. "It's a digital asset created out of thin air. It's not a currency. It's too volatile for that. investor] Howard Marks slammed it today. I agree. It's electronic trading at its worse. And it's criminal. For thugs and sc

And another: "[Cryptocurrencies] are not a permanent store of value if there is no limit on how many competing cryptos created. The 'limited supply' argument is clearly brand-specific, and there is no limit on supply overall. Any can create t crypto and take away market share from a particular crypto brand, and its value with it.

"Users will have to stay light-footed and be ready to hop from one to another quickly to avoid losing value when consum interests shift to the next one. I can also see dollar value in cryptos as a speculation, but I don't want to find myself in a where I am desperate to sell something of no intrinsic value to another sucker."

And this: "More on blockchain [the technology underpinning cryptocurrencies] and Creepocurrencies. The government dollars out of thin air. Creepocurrencies are created out of thin air. Unless one of the creepocurrencies backs the value faux currency with real silver or real gold, what's the difference?"

One reader compared cryptos to a chain letter: "The gist of the chain letter is that you pay to participate by sending the at the top of the 10-person list $10 or whatever amount the chain letter required as a buy in.

"You then removed the name at the top of the list to whom you sent your $10, placing your name at the bottom of the li then 'selling' five copies or whatever number the chain letter required of the NEW list with your name and address now list to your friends and neighbors."

Work in Progress

Some of these questions have answers.

For example, gold also has little intrinsic value. It can be used as jewelry. But gold jewelry would have little value were i
the monetary value of gold.

Real money has real “intrinsic” value only as real money. It’s scarce… it’s fungible… it’s divisible… it’s durable… and it’
transferable.

There is a “chain letter” effect with cryptos, as with any investment fad. The people who get in early get money from the
arrivals. But the Ponzi quality is incidental rather than essential to the main cryptocurrency story.

As for the lack of gold or silver backing, economist George Gilder takes up this issue in his book *The Scandal of Money*

He concludes that cryptocurrencies work just like gold because they are similarly anchored by the ultimate real-world co
time.

New bitcoins are “mined” when high-powered computers run by free-market entrepreneurs solve complex mathematica
puzzles. Each puzzle takes about 10 minutes to solve and requires lots of computer processing power… and electricity

According to one study, the amount of electricity spent mining bitcoin every day is comparable to Ireland’s daily power consumption.

So establishing an operational link to gold is unnecessary. Plus, we’ve seen – from the experience of e-gold, a precurso
bitcoin that was backed by physical gold – that the link provides an easy way for the feds to control the currency. Better
without it.

Does that mean cryptocurrencies will be the great success their backers expect?

We don’t know.

Cryptocurrencies are not an investment. And not yet a convenient or reliable form of money. They are still just an exper
work in progress. Early adopters could get rich… or get wiped out.

We’re as curious as anyone; we want to see how it turns out. In the meantime, we’ll hold on to our gold…

…and watch for cows straying onto the tracks.

Regards,

Bill