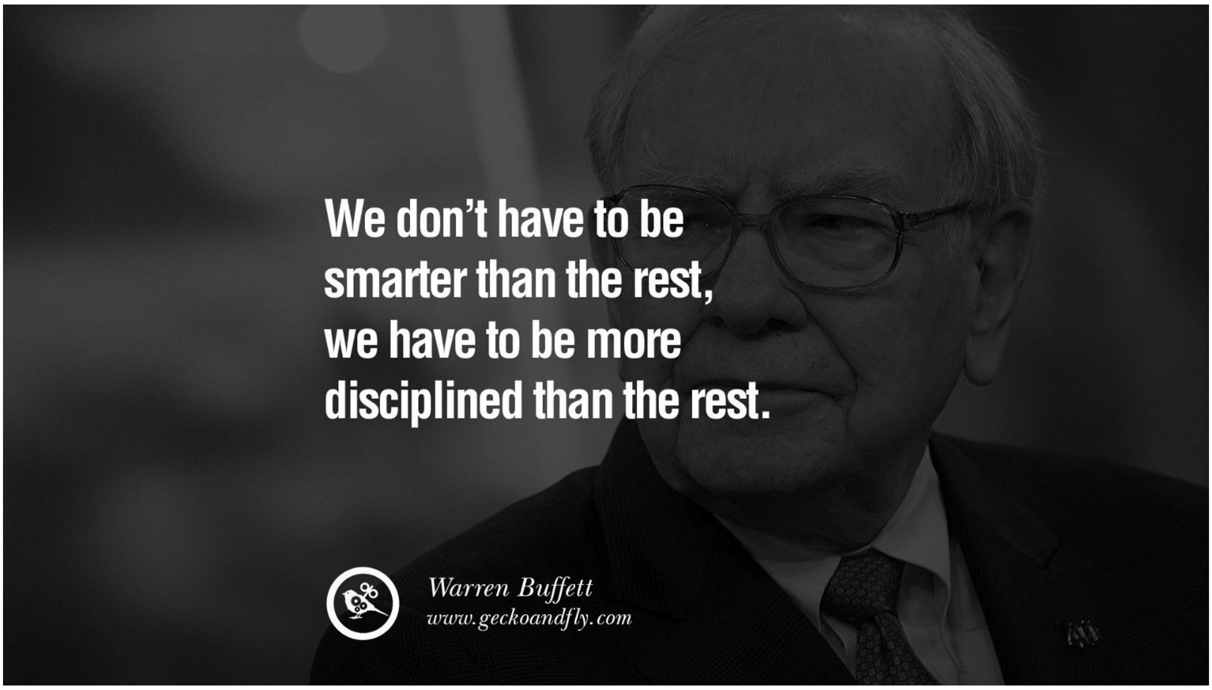
Why I sold all of my bitcoin

Even as prices hit record highs.



My Backstory

I'm a software engineer who's been following cryptocurrencies for over 8 years. I remember when Bitcoin first launched and the coding world was shocked by the anonymous blockchain whitepaper. Since then, I've made — and lost — several thousand dollars in a single day gambling on cryptos.

So, why'd I sell?

To understand that, we'll have to look at the two reasons you'd *buy* a cryptocurrency: as a *currency*, and as an *investment*.

CryptoCURRNECY

Blockchain / Bitcoin was invented as a new form of currency. One that's scalable, distributed and anonymous. Good currencies should also be generally accepted, stable and durable (among other things). So, whether or not it's a good *investment*, it should at least be a good *currency*… right?

- Is Bitcoin (or any major crypto, really) scalable? NO. Right now, Bitcoin can handle on the order of 3–7 transactions per second. VISA can handle 47,000. As bitcoins have become more popular, this scalability shortcoming has resulted in skyrocketing transaction fees (up to $50 per transaction!), resulting in many merchants (such as Steam) no longer accepting bitcoins.
- Is it distributed? Yes. But, this may not even be a good thing. While the creators and investors in cryptocurrencies talk about how terrible central banks are, they provide significant value in the form of economic stability through monetary policy. Without

printing more money (aka inflation), economies enter "deflationary periods" where currency itself becomes more and more valuable. Although this sounds great, many economists disagree and believe that deflation results in reduced spending and a vicious cycle of economic collapse.

- Is it anonymous? Mostly. But governments are cracking down on cryptocurrency exchanges, making it harder and harder to move cryptos around anonymously — and for good reason. As a society, it's generally not in our best interest to make illegal activities easier (although not all anonymous transactions are illegal, making anonymous transactions easier also makes illegal transactions easier). Plus, as individuals, **using an anonymous currency poses significant risk:** with identities hidden, fraud becomes rampant. Because it's behind-the-scenes, we as consumers rarely appreciate just how critical fraud prevention is. Without it, you would have no form of recourse if (sorry, *when*) a fake online merchant steals your money, or a thief gets hold of your bitcoin credit card and buys themselves a nice new $10,000 suit. With enough engineering, we might be able to build fraud prevention on top of cryptocurrencies by reducing some of their anonymity, but at what point are we just re-inventing the wheel?

- Is it generally accepted? After ten years and a lot of smart people working on it… still no. Scaling issues aside, this indicates that few consumers or businesses actually find value in bitcoins over existing currencies. As a business owner, I've even tried to add support for bitcoin… but it's so slow that integration is a huge headache. Imagine having to wait 10 minutes before you can get your cup of coffee because the transaction is still "clearing". Even if Bitcoin somehow supported 10,000x more transactions AND sped up the per-transaction speed 600x (down to one second), they'd have just achieved what we already have. I suspect that many businesses would still opt not to deal with the extra complexity of supporting another currency.
- Is it stable? HAH. Nobody will trust a currency that swings 10%+ in value in a single day. And because it's unregulated (unlike the stock market, which at least has the SEC), wealthy, malicious agents can cause serious economic harm through market manipulations.

Without stability, businesses can't trust a currency enough to set prices.

- Is it durable? Less so than a normal currency. All you have to do is watch the news for ongoing stories of people's bitcoins getting hacked / stolen / **forgetting their password and watching millions of dollars disappear.** At least with a bank account, there's a way to recover a forgotten password! (and the problem of humans forgetting / losing information will NEVER go away)
- The icing on top: Not only is Bitcoin 10,000 slower than existing solutions, it's also wayyyy less power efficient. **Each bitcoin transaction consumes $35 in electricity** (source). Bitcoin mining is only financially possible because the hype bubble keeps driving up prices (for now). In a time when governments and citizens around the world are working hard to reduce emissions, **cryptocurrencies are socially irresponsible.** Some cryptos are working on a new technology called Proof of Stake that should help with this, but it's still highly experimental. Until then, I'm ethically not interested in supporting any currency using wasteful Proof of Work systems,

even those ridiculous ones that claim to be "green" just because they're wasting solar energy (that could otherwise be used to replace coal power for reasonable uses).

As you can see, *even if* a cryptocurrency solved all of these nearly-impossible technical challenges — even if they became 10,000x faster, 5,000x more power-efficient and hack-proof — they've still created a currency that is a worse currency, by definition, than our current financial systems (see above points). Maybe some new blockchain-based currency will crack the code… and at that point, I will happily use that as my daily currency. But nobody can know if (or when) that will ever happen, or which crypto will succeed.

Most importantly, even if a blockchain-based currency *could* become a valid currency in the future, that doesn't make any specific crypto a good investment *now*.

What about an investment?

Which brings us to the second reason you might buy a cryptocurrency… as an investment. And, hey, there'll only ever be 21 million bitcoins! EVER! How could they not go up?

But, as Mr. Money Mustache — one of the savviest investors on the Internetputs it — "you could make the same argument about my fingernail clippings: they may have no intrinsic value, but at least they are in limited supply **so let's use them as the new world currency!**"

The same argument could be made about cash — it realistically only holds "value" because there's a limited amount of it. But, here's the thing: nobody *invests* in cash. People *invest* in things with value. Companies that produce revenues and dividends, or loans that offer you interest in return. Some people also "invest" in things like fine art, beanie babies, lottery tickets and vintage baseball cards, but let's be clear: that's speculation.

To really put the nail in the coffin, consider another one of MMM's excellent points: the core blockchain technology — which is the only reason to be excited about bitcoins and cryptos to begin with — is *open source*. Which means bitcoins as a gamble on blockchain technology aren't unique, and aren't actually in "limited supply". There are now more than 1,300 currencies all using nearly identical blockchain technology, with more being created every day.

While blockchain technology as a whole **might still provide value in specific ways** (such as Ripple speeding up international money transfers), cryptocurrencies as an *investment* are hype bubbles driven by founders and early investors trying to get rich quick and trick other people into buying their worthless tokens.

In conclusion

We as a society have a terrible memory. A lot of people made a lot of money in the run-up to the Dotcom bubble — and then lost all of it when their "million dollar companies" suddenly became worthless.

I don't know exactly when the crash will happen, but I can tell you this: you can only sell snake oil for so long before people realize it's water. If you own cryptocurrencies, please sell them. You should have made a nice little profit after their most recent run-up, but if you don't sell them before they crash, you'll lose all of your money.

P.S. For savvy investors looking where to put their money next: The entire crpyto market is worth over three-quarters of a trillion dollars as of writing. When these markets crash and all of that value disappears, there's going to be a recession. Recessions are categorized by a drop in available liquid assets, and thus a drop in spending, so $750,000,000,000 disappearing should just about do it. When all of that money disappears, lots of people are going to be defaulting on loans and cutting back spending, which will result in job losses and further spending cuts.

When that happens, stocks (which are backed by tangible assets) will go on sale and you'll be able to make a killing by investing your now-liquid cash in cheap stocks.

Like this? You might also like my piece on cars.