

BITCOIN – EXPLANATION MADE SIMPLE – PART 1

This is a two-part article on Bitcoin, Cryptocurrency and Initial Coin Offering.

WHAT IS BITCOIN? WHO INVENTED BITCOIN?

Satoshi Nakamoto, a software developer, believed to be a pseudo-name used by the unknown person or people who designed [Bitcoin](#).

WHAT PROMPTED BITCOIN?

Following the crisis in 2008 in US, people who lost money in the financial markets, has begun to lose confidence in fiat currency (paper currency) and began to question whether having a central government actually helps to protect our wealth. These group of people began to think of an alternative currency not managed by any government but managed using completely decentralized organizational structure and perfect anonymity.

In a decentralized monetary system, the total issuance of bitcoin is not determined by anyone but by the society at large.

The total number of Bitcoins is determined at the start does not go beyond the number of 21 million coins.

Bitcoin has a **fixed supply** of a **maximum of 21 million coins**.

IS BITCOIN A CURRENCY?

Bitcoin is not a currency because it does not have any central government's control. All the currencies in the world issued by countries under the control of its government.

Also, Bitcoin does not provide its investors with interest rate return as opposed to keeping money in banks.

However, Bitcoin is considered as a digital currency, and known as also a cryptocurrency.

WHAT IS CRYPTOCURRENCY?

Cryptocurrency is a form of digital currency that is designed to be secure and in many cases anonymous.

Cryptocurrency are not issued, nor regulated by any central authority.

Cryptocurrency transactions are recorded in public ledger known as blockchain. Cryptocurrency can be obtained through: -

- (i) a process known as mining
- (ii) buying through cash exchanges

WHY IS BITCOIN SECURED?

The Bitcoin platform **prevent** from sending the same Bitcoin owned by an individual to two people at same time. This is what Bitcoin technology solves: -No Double Spending.

THE THREE REQUIREMENTS TO SET UP A BITCOIN PLATFORM

- (i) **Exchange platform** that runs on Bitcoin is known as **Blockchain**. Blockchain is something like a ledger that maintains the records of the sender and receivers of bitcoin that could be traced from the beginning to any point of time, and is verifiable by public. No central government is involved in maintaining this ledger.

The block chain records are kept at <http://blockchain.info>

- (ii) A **Wallet** stores the digital credentials information necessary to transact bitcoins. The wallet can be in the form of web-based, hardware based or mobile based that is secure to prevent someone from hacking and touch our savings.
- (iii) **Payment process** to spend bitcoin and once the bitcoin is sent from a sender to receiver, the transfer cannot be reversed.

BENEFITS OF CRYPTOCURRENCY

- (i) **Efficiency** – Cryptocurrency made it easy to transfer funds between two parties in a transaction and way faster than banks
- (ii) **Security** – Fund transfers are facilitated through the use of public and private keys for security purpose.
- (iii) **Cost savings** – Fund transfers are done with minimal processing fees, allowing users to avoid the steep fees charged by banks
- (iv) **Accessibility** – Cryptocurrency requires no bank or the line of credit to make or received payments electronically.

HOW CAN AN INDIVIDUAL OBTAIN BITCOIN?

- (a) One can **purchase Bitcoin** from major exchanges. Example from a website, Coinbase. It allows individual to purchase Bitcoins from fiat currency and convert Bitcoins to fiat currency. Example: by the use of credit card
- (b) There are exchange platforms such as Luno, that connect potential buyers with potential sellers, allow them trading Bitcoin or other cryptocurrencies between each other, also known as **Peer to Peer**.
- (c) **Become a miner** - Bitcoin is “mined” by computers solving cryptographic math problems. In exchange for solving the problems, miners receive bitcoin. Those math problems have grown in difficulty over time, increasing the required computational power required to solve them. This in turn drives up the cost of equipment, and especially the cost of electricity to produce bitcoins.

WHAT IS THE KEY DIFFERENCE BETWEEN FIAT MONEY AND BITCOIN?

Traditional paper (fiat) currency – the central government of a country decides how much is the monetary supply. All we have to do is to earn and use it

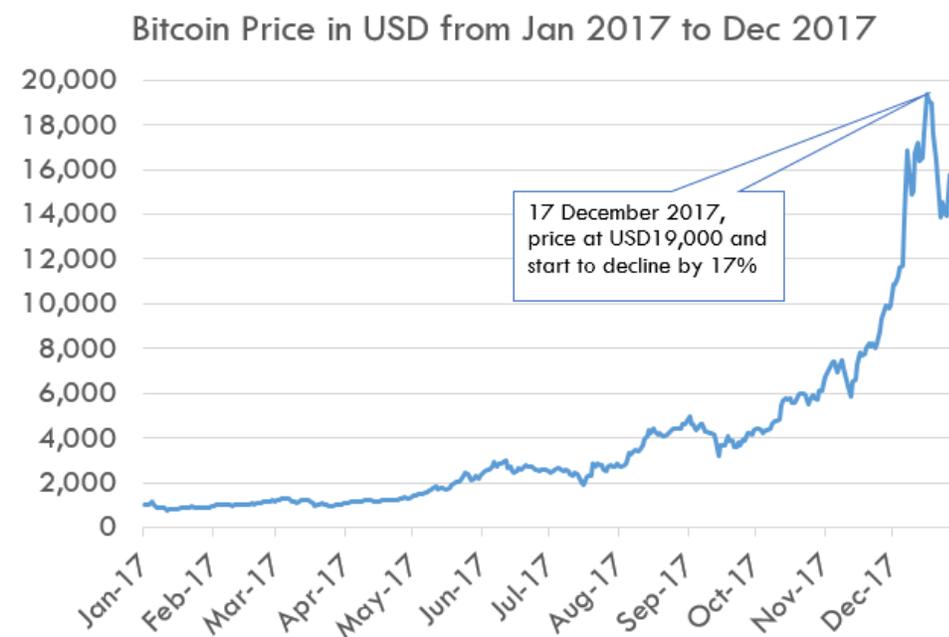
In Bitcoin, it is created by individuals having the right tools, internet connection and solving a mathematical function, known as mining. Bitcoin mining is the process of adding transaction records to Bitcoin's public ledger of past transactions or blockchain.

IS BITCOIN A CURRENCY REPLACEMENT IN NEAR FUTURE?

As a currency, price need to be stable. Tolerance of volatility. Now is still early as Bitcoin fluctuates a wide range of value.

In July 2010, one Bitcoin was USD 0.08, and in November 2017, one Bitcoin was USD 7,000 and in December 2017, it was worth about USD 19,000. Bitcoin has fallen each day since then, with losses accelerating on Friday, 22 December 2017. It was trading down 15 per cent on the day at \$US13,320 and was heading for its worst day in more than three months.

BITCOIN MARKET VALUE INCREASES DRASTICALLY IN 2017



Compiled by AER

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