

BITCOIN – EXPLANATION MADE SIMPLE – PART 2

IS CRYPTOCURRENCY THE FUTURE OF MONEY?

HOW TO KEEP BITCOIN?

In a **Bitcoin wallet**, that can be downloaded and setup from a computer or smartphone.

BITCOIN WALLET PASSWORD – ONCE FORGOTTEN UNLIKELY TO BE RETRIEVED

Just an example to show how important of choosing a place to store Bitcoin: it was reported that there was a service provider named Mt Gox, which was responsible for 70% of Bitcoin transactions in year 2014, disappeared overnight, with 850,000 Bitcoins belonging to customers valued at more than \$450 million at that time, were missing and most likely were stolen.

There was another case, Mr. James Howells bought 7,500 Bitcoins when the cryptocurrency was still new, but in 2013, he threw away the hard drive which contained private keys of his Bitcoins. The Bitcoins would be worth over \$126 million today. The owner's effort in locating the landfill where his hard drive which currently sits awaiting recycling, is like finding a needle in a haystack. Hence the amount of Bitcoins in circulation is far lower than the amount of Bitcoins in existence. Of more than 16.5 million Bitcoins that have been mined so far, it is estimated that up to 25% have been accidentally lost or willfully destroyed.

USES OF BITCOIN

a) Payment to merchants - Payment is made to merchants by remitting the amount of Bitcoin to the address of the merchant. At present, the number of merchants that accepts Bitcoin are small.

b) An investment – To my knowledge, I have not come across an institutional investor consider Bitcoin as an asset class. Presently, it is a speculative asset. However, it is interesting to note that JP Morgan, Goldman Sachs and American Express have recently invested in Bitcoin related companies.

Investment analysts are still cautious about recommending Bitcoin as an investment.

STEPS TO REDUCE PRICE VOLATILITY IN BITCOIN

At this moment Bitcoin is NOT a currency as it is subjected to high price volatility.

The setting up of a Futures Market at Chicago Mercantile Exchange (CME) allows the buying and selling of futures contract.

The main difference in the Futures Market as compared to the Cash Market of Bitcoin, is that market participants in a Futures Market is able to take position without having a wallet and also able to short the market which cannot be done in a Cash Market

IS BITCOIN THE ONLY CRYPTOCURRENCY?

No, there are many other cryptocurrencies with Bitcoin as the **first** cryptocurrency. There are currently **more than 1,340 cryptocurrencies** that exist right now but some of the names are seldom heard of. Something interesting to note out is that there are only about **200 currencies** in the world.

TOP FIVE CRYPTOCURRENCIES – BITCOIN REPRESENTS 57% OF THE TOTAL MARKET CAPITALIZATION (Approximately USD 400 Billion)

As at 25 December 2017, total Bitcoin in circulation was 17.3 million. Based on a price of USD 13,373 per Bitcoin, the market capitalization of Bitcoin is about USD 231.5 billion.

No.	Name	Price (USD)	Market Cap (USD Million)	24h Volume (USD Million)	% of coins turnover a day
1	Bitcoin (฿)	13,373	231,572	11,088	5%
2	Ethereum	694	69,990	2,297	3%
3	Bitcoincash	2,701	47,856	1,440	3%
4	Ripple	1	39,653	669	2%
5	Litecoin	262	15,044	1,035	7%

Compiled by AER

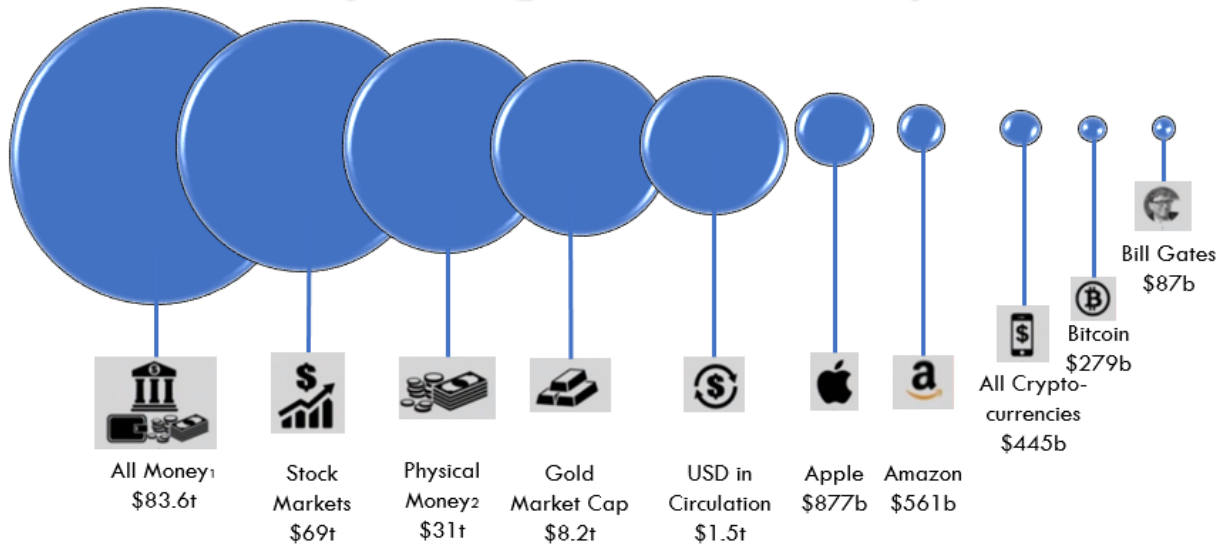
COMPARISON OF MARKET CAPITALIZATION OF CYRPTOCURRENCIES WITH OTHER ASSETS

The present size of all the cryptocurrencies is still small compared with the currencies in the world.

The size of market capitalization of cryptocurrencies is approximately USD 445 billion. The size of gold market reserves in the world is approximately USD 8,200 billion, which is 18.4 times more than cryptocurrencies.

The market capitalization of Amazon is approximately USD 561 billion, about 1.3 times more than cryptocurrencies.

Comparing Market Caps



1. All Money = money in any form including bank or other deposits as well as notes and coins
2. Physical Money = money in forms that can be used as a medium of exchange, generally notes, coins and certain balances held by banks

WHAT IS INITIAL COIN OFFERING (ICO)?

ICO is an unregulated means of crowdfunding by which funds are raised for a new cryptocurrency venture. It is considered as an alternative to a fund raising by listing in capital market by way of an Initial Public Offer (IPO). As ICO is not regulated it is heavily being scrutinized by regulators in most countries recently.

Investors invest in cryptocurrency and in return is issuing tokens or digital coins. Tokens or digital coins give a right to some future service, dividends or, or can such tokens be traded on blockchain exchanges

WHAT IS THE CHALLENGES OF ICO?

Recently, Securities Commission Malaysia has directed Singapore-based CopyCash Foundation to halt all its activities in Malaysia, including a planned ICO scheduled on last Wednesday (10 January 2018).

Investors should be mindful of the potential risks involved in ICOs schemes as shown in the table below.

Risks	Explanation
Reliability	Is the fundraiser really building a new cryptocurrency? Or just a scam? It is quite difficult for layman to verify such business operation.
Legitimacy	Most of the countries have not yet accepted cryptocurrency. Hence investors may not be able to recover their investment in ICO via legal procedure.
Vulnerable to illicit activities	The ICO scheme may be exposed to risks of fraud, money laundering and terrorism financing.
Illiquidity	Some ICO schemes may make available a platform for the digital tokens or coins to be traded, there may not have many investors to participate in, subsequently giving rise to illiquidity.
Inadequate information	The whitepaper, which contains information and descriptions of the ICO scheme that is made available to investors, in most cases unaudited, incomplete, or even misleading, it typically puts the emphasis on the potential benefits but do not make a full disclosure of the risks. It may also carry disclaimers which absolve the operators from certain responsibilities and obligations.

Compiled by AER

END

This article is prepared by Ong Tee Chin, CFA, FRM, and represents the views and opinions of the author. The contents of this publication are intended for purposes of general information and academic discussion only. It should not be construed as financial or legal advice or legal opinion.

The author wishes to declare that the author and Asia Equity Research do not have any share ownership in any of the companies discussed prior to this and until current date. The author can be contacted at general@aer.global for any further enquiries on the contents of this article.

You are required to obtain written consent from Asia Equity Research Sdn Bhd ("AER"), if you wish to redistribute or reproduce in its original form the information from this article or quoting in other materials. AER reserves the right to take legal action against any party / parties that violates any property rights with respect to this article without obtaining such written consent.