

Introduction to Bitcoin

A Stodgy Banker Discusses the Bitcoin Value Proposition
or

Know When to HODL, Know When to Fold 'em

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Guest Speaker

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Introduction

- Began learning about Bitcoin and cryptocurrency in 2017
- I was intrigued with distributed ledger and blockchain technology and the potential to disrupt finance
- Became a believer in the value proposition
 - Why is bitcoin worth owning?
- Bitcoin vocabulary

HODL

Distributed ledger

Sats = Satoshis

Cryptocurrency

What is Bitcoin?

- Peer to peer monetary network introduced in 2009 by pseudonymous developer “Satoshi Nakamoto”
- Software protocol based on cryptography and distributed ledger technology
- The unit of account is Bitcoin, divisible by satoshis
 - Like dollars and cents
 - 100,000,000 satoshis (Sat) = 1 Bitcoin (BTC)

What is Bitcoin? cont'd

- Decentralized computer network running the same software
- Bitcoin maximum supply is certain and hard capped at 21,000,000



Why is a Fixed Supply So Important?

- A fixed supply of 21,000,000 prevents monetary debasement
 - Monetary debasement has plagued all fiat currencies throughout history
 - An unlimited expansion of monetary supply results in savings losing value over time
- Political influences inevitably lead to monetary expansion and debasement
- Bitcoin fixes this – a widely used monetary instrument with fixed supply prevents the erosion of purchasing power over time

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What Does This Mean in Real Life?

iPhone prices in #Bitcoin ₿

iPhone 4	- 2857 BTC
iPhone 5	- 16.6 BTC
iPhone 6	- 2.17 BTC
iPhone 7	- 1.28 BTC
iPhone 8	- 0.24 BTC
iPhone X	- 0.16 BTC
iPhone 11	- 0.14 BTC
iPhone 12	- 0.06 BTC
iPhone 13	- 0.02 BTC

Credit: @CryptoManiaks



Why is Bitcoin Being Adopted as Money?

Traits of Money	Gold	Fiat (US Dollar)	Crypto (Bitcoin)
Fungible (<i>Interchangeable</i>)	High	High	High
Non-Consumable	High	High	High
Portability	Moderate	High	High
Durable	High	Moderate	High
Highly Divisible	Moderate	Moderate	High
Secure (<i>Cannot be counterfeited</i>)	Moderate	Moderate	High
Easily Transactable	Low	High	High
Scarce (<i>Predictable Supply</i>)	Moderate	Low	High
Sovereign (<i>Government Issued</i>)	Low	High	Low
Decentralized	Low	Low	High
Smart (<i>Programmable</i>)	Low	Low	High

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Questions or Comments?



Why Does Bitcoin Have Value?

- No intrinsic value, similar to all fiat currency
- Fundamental driver of value of all money is network effect
- Society collectively agrees on value through markets
- Relative value is allocated to all fiat currencies, Bitcoin and other assets through markets
- Value is also derived through use and increasing use equals higher demand and relative value - Bitcoin's usage is increasing

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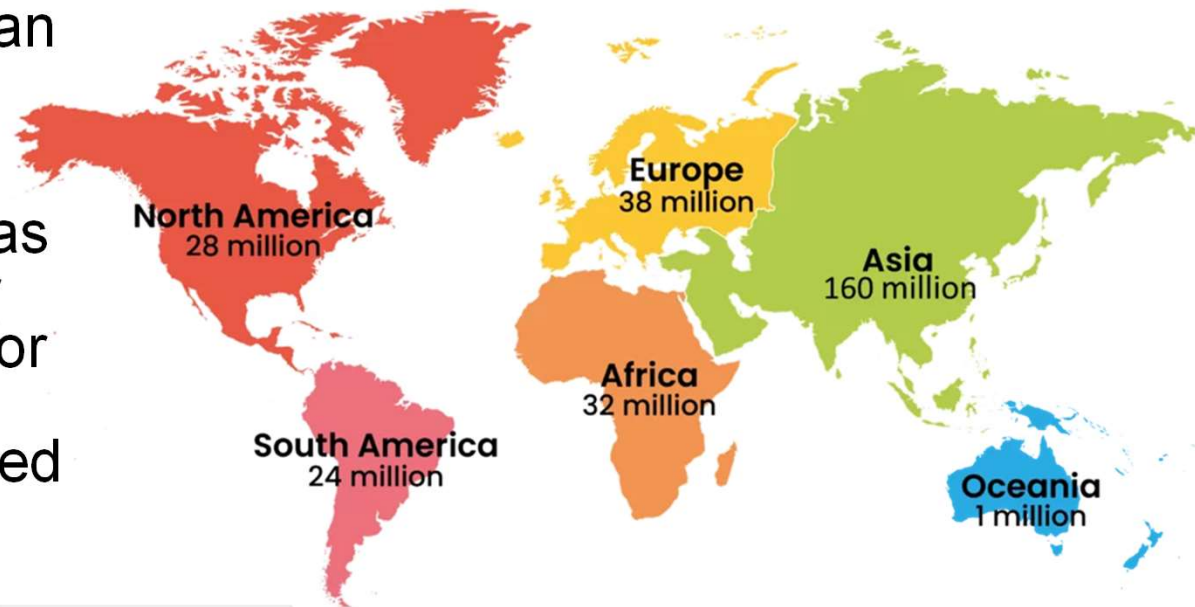
Why Does Bitcoin Have Value? cont'd

- Current Bitcoin applications
 - Store of value
 - Unit of exchange
 - Peer to peer payments
 - International settlements and transfers
- Future applications
 - Smart contracts for programmable monetary instruments
- Bitcoin's value is increasing over time because the network usage and adoption is increasing over time

Bitcoin Ownership Trends

- Bitcoin and crypto currency adoption is an international trend
- Adoption of Bitcoin has the potential to be far more consequential for developing countries compared to developed countries

Over 300+ MILLION CRYPTO USERS WORLDWIDE



Coin Market Capitalization

- Bitcoin market cap reached US\$1 trillion in February 2021
- Bitcoin constituted 66% of the total market capitalization of cryptocurrencies in 2020



Top Countries

1. India (100 million)
2. USA (27 million)
3. Nigeria (13 million)
4. Vietnam (5.9 million)
5. United Kingdom (3.3 million)



Owners Demographics

- 79% male, 21% female
- 58% are aged under 34
- 82% have a Bachelor's degree or higher
- 36% have an annual income over US\$100k

How Do You Acquire Bitcoin?

Three ways to acquire Bitcoin:

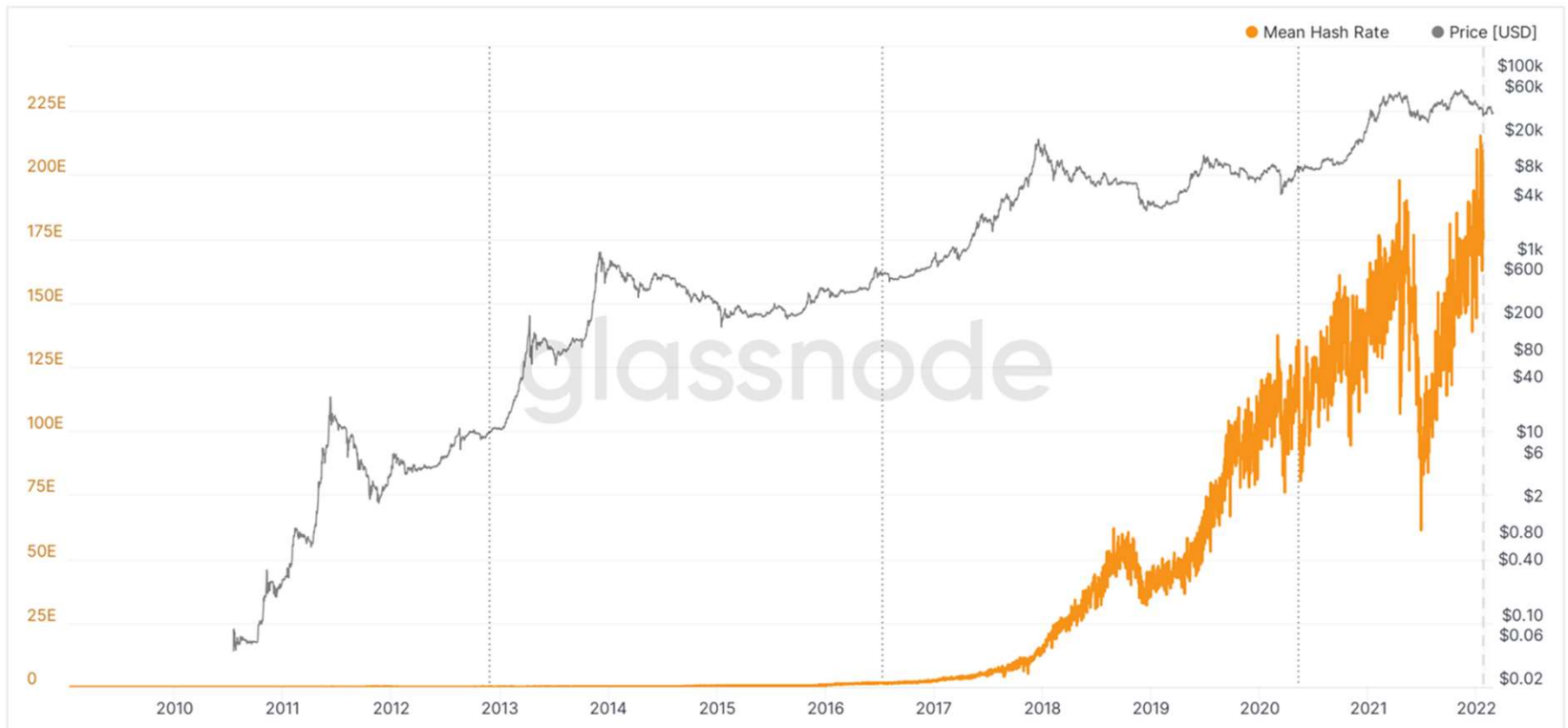
1. Buy Bitcoin on an exchange – like buying a stock through a broker
2. Mining Bitcoin
 - Running computers with Bitcoin software
 - Miners earn revenue paid in Bitcoin to process transactions using computing power
 - Primary cost of acquisition is cost of electricity and computer hardware
3. Get paid in Bitcoin – Earn Bitcoin through work/services

Is Bitcoin Secure? Why is Hashrate important?

- Bitcoin network security and processing power is expressed in **Hashrate**
 - More Hashrate = Stronger network, more secure
 - More miners = More decentralized
- A noted security risk with Bitcoin is a 51% attack
 - A miner who has control 51% of the Hashrate could manipulate the ledger
 - The energy input is prohibitively expensive to execute a 51% attack

Bitcoin Hashrate Growth

Bitcoin: Mean Hash Rate



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Why a Stodgy Banker Became a HODLr?

- Bitcoin is a DEFLATIONARY currency
 - Over time goods and services become cheaper when denominated in Bitcoin because there is a finite amount of Bitcoin
- Fiat currencies are INFLATIONARY currencies
 - Over time goods and services become more expensive when denominated in fiat because there is increasing fiat supply
- A stodgy banker understands this dynamic and seeks to shelter savings in a DEFLATIONARY savings instrument in order to preserve maximum purchasing power for the future.

Common Bitcoin Criticisms

- Bitcoin is a Ponzi scheme
- Definition of Ponzi scheme from SEC:

“A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors. Ponzi scheme organizers often promise high returns with little or no risk. Instead, they use money from new investors to pay earlier investors and may steal some of the money for themselves.”

- This criticism ignores the definition of Ponzi scheme
- Bitcoin ownership is verifiable and 100% controlled by the owner
- All investments with secondary markets rely on other investors for exit liquidity
- No founder (Satoshi Nakamoto) Bitcoin has ever been sold

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Common Bitcoin Criticisms cont'd

- Bitcoin uses too much energy
 - Valid criticism - mining is energy intensive, however
 - Significant portion of mining uses renewable energy sources
 - Bitcoin mining can be an important countercyclical energy user that helps balance the grid
 - We are entering the digital age – economic winners will transform maximum amounts of electricity into economic output, like the industrial revolution where economic winners used carbon to transform physical materials into economic output.
 - Overall, electricity consumption will only go up with technological and digital advances, regardless of Bitcoin adoption.

Questions or Comments?



Bitcoin Lingo

What is HODL?

Hold on for Dear Life!

Or HOLD misspelled...



What is Stacking Sats?

Saving Satoshis!



Pros and Cons of Owning Bitcoin

Pros

- New asset class with uncorrelated returns to equity and debt
- High potential returns (can't get high returns without high volatility)
- Small allocation can produce outsized returns

Cons

- Regulatory uncertainty
- High volatility (low returns are guaranteed with low volatility investment instruments)
- Adoption may slow and value increase may not materialize
- Highly speculative
- Long time horizon needed

Recent Examples of Bitcoin Adoption

- February 2022 – Colorado announced plans to accept Bitcoin for state tax payments.
- February 2022 - ConocoPhillips announced plans to reduce gas flaring emissions via Bitcoin mining
- February 2022 – Russia / Ukraine conflict – surge in Bitcoin activity in the region during the run up to the conflict – Flight to Bitcoin as Ruble declines, transfers out of Ukraine
- September 2021 – El Salvador declares Bitcoin legal tender, is issuing dollar denominated bonds to finance Bitcoin mining in the country using geothermal energy from volcanoes

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Bitcoin Compared to S&P 500, AAPL & TSLA

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Bitcoin / U.S. Dollar, 1W, BITSTAMP 42849.45 +1607.31 (+3.90%)
Vol 3.445K
SPX, SP 4461.17 -1.94 (-0.04%)
TSLA, CBOE BZX 921.16 +15.77 (+1.74%)
AAPL, CBOE BZX 165.38 +1.40 (+0.85%)



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