



WHAT'S THE BITCOIN BUZZ?

By Mark Rider, Chief Investment Officer, ANZ Wealth.

The value of Bitcoin has rocketed higher. But what do we know about it? Does it really have value?

What is Bitcoin?

Bitcoin is a type of digital currency known as a cryptocurrency. It operates on a decentralised peer-to-peer networked program on your computer, meaning that transactions can be conducted between a buyer and seller without the need for any third party oversight such as a regulator or bank. The underlying technology that makes all cryptocurrencies possible is the blockchain – a digital, shared record book which keeps track of all transactions.

When a transaction is made, it is added to the end of the blockchain and confirmed using a series of complex calculations by the computers of other users who are on that currency's network.

So, a digital coin is like a bit of code, that could be copied and reused and sent to multiple people. The blockchain stops this from happening because all computers on the network reach a consensus that that coin has changed to a new owner when a transaction is made.

Blockchain technology provides the opportunity for reduced costs by removing the need for the 'middleman'; and by virtue of the identical recording of each transaction across many thousands of copies of the same digital record book reduces the likelihood of fraud or error via traditional means.

Bitcoin's 'wild run'

Bitcoin's value has oscillated wildly. In 2010, in the early days of bitcoin, a man in the US bought two Dominos pizzas for 10,000 bitcoins. The value of those bitcoins recently went over \$100 million USD! These spikes in value have certainly sparked huge interest and people are now buying it because they think it is going to have a higher value in the future, rather than using it to pay for things.

Bitcoin peaked at US\$20,000 in mid-December 2017, lost 40 per cent of its value within a week as it dipped below US\$12,000. It then bounced back and hasn't stopped bouncing since.

Does Bitcoin have value?

While cryptocurrencies led by Bitcoin and their blockchain technology seem to hold much promise, there are a few issues to consider.

Unlike traditional currencies and mediums of exchange, Bitcoin cannot be widely used as a means to purchase material goods or services.

Nor does it produce any income in the way that shares can generate dividends, or property generates rent.

You can't even touch it, like gold. This makes it very difficult to value. And its wild swings in price make it an uncertain store of value, another characteristic of currency.

In addition, the hype surrounding it certainly has all the hallmarks of a 'speculative bubble.' People are buying it and holding onto it in the hope that it will continue to rise in value. As pricing spirals higher, the more likely it is that it will crash.

A major risk for cryptocurrencies is regulation. China banned bitcoin in 2017 and other cryptocurrencies may not have come onto regulators' radars yet, but some are becoming the preferred medium of exchange for criminals due to anonymity.

If governments can find a way to crack down, they surely will.

All up it's hard to say what will happen next. Bitcoin and other cryptocurrencies are so new that historical examples may not apply.

But history is littered with plenty of episodes of speculative fevers that ultimately collapsed. While exciting, we have a healthy level of scepticism about its long-term value.

Our illustration below may better explain the Bitcoin buzz.



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BITCOIN IS A TYPE OF DIGITAL CURRENCY KNOWN AS A **CRYPTOCURRENCY**



It operates on a decentralised peer-to-peer networked program on your computer without the need for any third party such as a regulator or bank.



The underlying technology is the blockchain.



Bitcoin's value (which is hard to define) has oscillated wildly and has all of the hallmarks of a 'speculative bubble'.



Facing government crackdown as criminals are using due to anonymity.

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