Crypto Currencies: Should They Be Part Of Your Portfolio?

My General Thoughts And Advice About Cryptocurrencies

Hey guys, Ron Parks here, and welcome back to the channel.

Today we're going to talk about something that can seem a little difficult to explain but is actually very simple. Anything that's not immediately tangible appears like it's going to be complicated, but I promise it's not.

It's a fairly straightforward concept, really – we're talking about cryptocurrency. Or, as John Oliver aptly described it, "Everything you don't understand about money, combined with everything you don't understand about computers."

So today, we're going to do our best to define it as simply as possible; I'm going to deal with the history of it a little bit, then I'm going to tell you what I think about it.

The thing about a new financial technology is that most people, the moment they don't understand it, become terrified of it. Or they're all too willing to jump on board.

Neither is advisable when you're talking about money. Risk is something you should always consider seriously, but I don't think avoiding it entirely is the right way to go either.

So what is Cryptocurrency? Let's go with a Webster's/Wikipedia combo to define, then branch out from there.

The main kind of currency you've probably heard of is Bitcoin. It's been in the media heavily in recent years, and you've probably heard hackers demand it as ransom for data they stole, which is pretty standard because it can be quite difficult to trace.

Crypto, like Bitcoin, is a term used to describe internet-based, decentralized currency. Confused yet? All that means is that it only largely exists as computer code.

It's not currency printed by the Fed, and there's no real correlation to it. No bank or government is controlling or backing it, so how is it worth anything?

Well, your annoying younger friends are going to try and blow your mind and say, "How is anything worth anything, bro?" Well, 'bro,' this is a bit more involved - and one thing I refuse to do is cater to anyone who calls me, "Bro."

I'm not worried about FOMO, Nor will I talk about HODL. I'm not concerned about getting REKT, nor is my finance goal to earn a LAMBO - I speak in complete sentences.

Let's say you buy a share of Apple. That means you've got a stock certificate; you own a small piece of the company, and its value will rise and fall with how well the company is doing. Essentially, the intrinsic value of the stock is tied directly to the company.

Bitcoin, or any cryptocurrency, is not. It's entirely speculative. So that means it's worth whatever people believe it's worth. You could say this of physical money as well – you can go through history and find examples of currency suddenly devalued. It's the same with crypto, and the thing I think confuses people is that it's not a physical object you can hold like traditional currencies.

But is it an investment, or is it money? Technically, it's both. You can exchange crypto on various markets known as exchanges. But, when you think it's reached its peak value, you can also cash it out.

So how did cryptocurrency come about?

Like everything with computers and the internet, it was around a lot longer than you'd think. A cryptographer named David Chaum created ecash in 1983.

He implemented it in 95 as Digicash, which got the attention of the National Security Agency. Its purpose was the same, but this was 1995; the most people understood about the internet at the time was from the Sanda Bullock movie 'The Net.'

We're talking about a time when Dennis Miller was considered a bankable actor, people. A few others popped up throughout the 90s, but Bitcoin was the first cryptocurrency to be taken seriously and garner significant attention. It launched in 2009.

By 2017, it was all the rage. News stories were everywhere, with reports of kids in Florida swamplands becoming overnight millionaires. It was very much a new frontier in finance.

But like the wild west, it was lawless. And as a result, other cryptocurrencies besides bitcoin started popping up. You have everything; you had Jesuscoin, you had Trumpcoin, you even had a coin that started as a joke in dogecoin – that actually ended up turning a major profit.

But without regulation, it went crazy. Over a year, it piqued at 20,000 and started falling. There were pyramid schemes, get-rich-quick-schemes, pump and dump scams – it was gruesome. One promoter and founder of a cryptocurrency was Brock Pierce, a child actor from The Mighty Ducks.

If you haven't heard about that guy, you're better off for it. You can go ahead and google for yourself the disturbing scandal he's tied up in.

So many shady characters turned up, it almost got as bad as the scams mentioned earlier, where the same level of flagrant criminality was on display.

But here's the thing: Bitcoin survived.

In fact, it's currently up 300 percent, and it's being considered one of the best assets in a ferocious year.

[Sighs]
So is it worth it? That's the ultimate question, and I'm going to lay out five reasons why it might be and a few why it might still not be. But before I do, I want to give you an example.

A friend of mine got married a few years ago, back when Bitcoin was really popular. And as a wedding gift, one of the guests bought them one Bitcoin. Currently, that coin is worth $23,000. It was $28,000. Now, he figures, it's free money anyway, so he's going to let it ride a little longer.

He's still not sure, though, so he asked me. And I know him pretty well; he's not much of a risk-taker. So I gave advice right for him – but that doesn't mean it's right for you. I told him to sell and take the money because the market will always be volatile and invest it in something more secure.

He's decided to stick it out a little longer, but the advice is still sound. If you're not comfortable in a volatile market that Paul Krugman has said is bound to burst, then don't be in it.

When you're dealing in crypto, you have to accept the fact that you're pretty much gambling, and there are safe, smart ways to gamble, and then there are the shadier options. But the key thing is don't lie to yourself and say that you're not. The more honest you are with what you're doing, the better you're going to do it.

So why might you want to invest in crypto?

[1: Global Adoption is Expanding]

Number one: more and more countries are using it. There are currently only eight countries that have imposed an outright ban on crypto – Algeria, Bolivia, Egypt, Iraq, Morocco, Nepal, Pakistan, and the Emirates. But the number of people utilizing Blockchain – or the underlying technology that makes crypto possible – is increasing steadily worldwide.

Blockchain's data shows that users increased from 43 million users last year to 58 million this year. If that number keeps growing, that means the price movements could be on their way to returning to the start of 2017.

[2: The Financial Crisis is Aiding It]

Number two: This is another reason why it's on the rise again, the Coronavirus. I mentioned earlier that Bitcoin came about in 2009, knowing I'd come back to it. What happened the year before bitcoin? The housing market crashed. And the rise of bitcoin didn't coincide with it; the crash spurred it on.

It was ignored then, except for a select group of people on the ground floor, but it didn't take even a decade to peak.

So we're in a new kind of financial crisis, with companies and individuals more aware of Bitcoin than the first time around, so they see it as a potential source of value.

Let me quote the creator of Bitcoin, Satoshi Nakamoto. It's a lengthy one, so I'm going to put it up on the screen, but here goes. "The root problem with conventional currency is all the trust that's required to make it work. The central bank must be trusted not to debase the currency, but the history of fiat currencies is full of breaches of that trust. Banks must be trusted to hold our money and transfer it electronically, but they lend it out in waves of credit bubbles with barely a fraction in reserve."

So it almost seems like he designed bitcoin specifically with financial crises in mind. A place to put your money when the money fails.

[3: Stock to Flow]

Number three: the Stock to Flow Model. This is a financial concept that's going to take some explaining. It's a term used to describe the rarity of a good. Stock – that's the total supply of the product in circulation. Flow represents the amount of new supply of the product every year.

Bitcoin has a fixed supply schedule. So you can measure its Stock to Flow very accurately. The current Stock to Flow is 56 – that's almost the same as gold. So that's somewhat scarce, right? Its scarcity is what helps determine its value.

[4: Hello, Wall Street]

Number four: Wall Street is using it. Bitcoin's strong performance this year didn't go unnoticed. A business analytics company announced in August that they bought $250 million in Bitcoin.

The similarities to gold don't end with its scarcity. Citibank released a report that there were other similarities to gold in the 70s. There's no real guarantee about how well Bitcoin will stay, but it looks promising, and the more companies take it seriously, the more it's serious.

That's what a speculative investment means, essentially. It's worth what people think it's worth.

[5: History Agrees]

Number five: let's look at the history. As you should do with any investment, looking into its track record should tell you a lot about it. Let's look at mid-2011, which's the first big showing for

Bitcoin - it went at $30 per bitcoin. Then one of the major exchanges was hacked, and its value plummeted to $2 practically overnight.

In April 2013: Bitcoin briefly hit $260 before crashing within hours.

Later that same year, it hit the $1000 mark. In 2017, it hit the famous $20,000 mark before seriously crashing when the market gets flooded by impersonators, scams, and wannabes.

But historically, it looks set to exceed that all-time high, especially during the Coronavirus pandemic. This could mean that Stock to Flow might not even play a role in its popularity; there may be enough interest right now without it.

But again, that doesn't necessarily mean it's a sure thing or that it's safe to KEEP your money in there.

This brings me to a couple of reasons why you might not want to invest.

[1: Volatility]

Number one, it's always going to be volatile. If you're risk-averse, this isn't something that's going to appeal to you, and you're better off with safer picks in more traditional markets.

[2: Hacking]

Number two: hacking. I mentioned John Oliver earlier, and there's one particular joke I loved when he was covering this a couple of years ago. He got footage of a guy trying to explain how safe Blockchain is – unhackable, he says. He said, imagine trying to turn a Chicken McNugget back into a chicken.

Well, that's just the most horrifying thought imaginable. Never mind the gory science behind it or the fact that it makes me think of the movie Carnosaur, but that chicken certainly went through hell.

So yes, Blockchain itself is not terribly hackable. That does not mean you aren't. And any exchanges aren't protected by the Fed, so you're taking a risk.

[3: Regulation?]

Number three: So the Fed's not protecting your exchange, that also means they aren't doing much to regulate it. Not yet, at least. It's still the wild west out there, so you're leaving yourself open to a world of fraud.

[4: Limited Use]

Number four: You've got it, where are you going to spend it? Not that many companies currently accept Bitcoin as a valid form of payment. I think Etsy is the only one I've seen offer it as an option. Also, if you've got some and it's allowed to be used as regular tender one day – we've seen examples of this – it could be rendered useless. There was a cryptocurrency conference in 2017 that took Bitcoin as payment, and they had to stop doing so when it suddenly became worthless.

[5: Wallets Can Be Lost or Stolen]

Number five: You can lose your digital wallet. If your hard drive is damaged or your files get corrupted somehow, it's gone - and here's the kicker, there's no way to get it back.

So, there's a lot of risk involved. But you'll notice, all of the cons I just listed that might dissuade you from investing – yet none of them are anything new. These aren't recent problems discovered in the past year; this is the stuff all naysayers warn you about going in all the time.

The first list, the reasons why now might be a good time, are entirely new. So it might be a good thing, but I don't want you to walk away from this thinking that I've just wholly endorsed and recommended it.

If you're a gambler and a risk-taker, then, by all means, have fun! But always stick by sound investing advice – never play with more than you're willing to lose. And be sure to do your own research. Watch that John Oliver piece, where he seems to be on the side of not getting involved, but still arrives largely where we are now.

Alright, guys, thanks so much for watching; I hope you learned a thing or two. If you did, go ahead and smash that "like" button. Be sure to subscribe for more, and click that little notification bell so you can be updated when I upload. I try to post at least once a week, if not more. I'll see you next time.