

What's all the fuss about?

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I have received numerous questions over the past few weeks and months regarding Bitcoin: a cryptocurrency that rose in value almost exponentially during 2017. These questions have generally been from friends and clients that do not have an in-depth knowledge of investment markets and have become curious about an investment that has become a household name with the huge media coverage of the story.

Now, we are unsure if Bitcoin or any other cryptocurrency will replace the traditional currencies as a means of exchange over the coming years and therefore, do not have a view on this per se. However, it is interesting to us that these questions have arisen after a very strong period for investment markets. Also, no individual that asked us the question understood how cryptocurrencies really work.

In simple terms, all transactions carried out around the world pass through a number of clearing banks. In the UK, Lloyds and HSBC are two examples of such banks. The technology that sits behind cryptocurrencies, Blockchain, is a digital ledger of economic transactions that can be programmed to record not just financial transactions but virtually everything of value. This technology, in theory, allows monetary transactions to occur without them passing through the traditional banking networks we have all become accustomed to. This should in theory reduce costs over time and be a positive for users in the future.

To us at Tacit, Bitcoin is a little like the Tesla car. Tesla cars are only available because the battery technology has advanced to a stage that makes an electric car brand viable. In a similar way, Bitcoin is only available because the blockchain technology is now available. The advances in battery technology and blockchain's development are not in question, the only thing in question is whether Tesla and Bitcoin will be the ultimate beneficiaries of these technological advances. Others may well steal a march over the coming years and apply this technology in a more lucrative way.

At this stage, we remain unsure. One thing that does worry us at Tacit is the lack of research that is carried out by investors before investing in such areas. Just because an investment has risen in value and has enjoyed media coverage does not constitute research.

The image below illustrates our point in a light-hearted way.



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