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## 'I own tulips at 40 cents a bulb'

Satoshi Nakamoto, the legendary creator of bitcoin, isn't one for PR, but if the reclusive monetary inventor ever does venture out into the limelight, he might consider a graceful acknowledgment of the indispensable help that the world's central bankers have accorded his currency project. Whether or not the darkening clouds of crisis-era monetary policy inspired him to create a private store of value, capped as to its ultimate supply, the spectacle of negative nominal interest rates and multi-trillion-dollar bond-buying binges have surely inspired his followers.

Anyway, bitcoin is on fire, other digital currencies are likewise making new highs and ICOs—initial coin offerings—are supplanting, to some small degree, the dearth of equity IPOs. In Japan, Nikkei reports, bitcoin will be exempted from consumption tax starting in July, a move that, also according to the news service, is fanning crypto-currency interest among institutional investors. We write to shed light on the whys and wherefores of the alt-monetary bull market.

You need bitcoin to pay ransom, of course, to evade capital controls and for other purposes, aboveboard and otherwise, while blockchain technology assures a verifiable and transparent routing of funds that might otherwise be pilfered or lost to the tax man.

Is bitcoin a bubble? We put this fundamental question to Wences Casares, the visionary who addressed the Fall 2015 *Grant's* Conference on the merits of the digital currency, which, as he spoke, changed hands at a mere \$250 per unit ([Grant's, Oct. 30, 2015](#)). Casares said then (and reiterates now) that there is a non-trivial chance—call it

20%—that bitcoin will fail. However, the possibilities of success are so asymmetrically compelling that—well, only consult the price chart.

"If bitcoin fails," Casares tells *Grant's*, "anyone who looks back and says there is a bubble in bitcoin is going to be right. There was a bubble in bitcoin; it went to zero. If bitcoin succeeds, you are never going to be able to say there was a bubble. I've heard that there was a bubble when bitcoin went from 90 cents to \$3, from \$3 to \$17, from \$17 to \$120 and from \$120 to \$800. I'm hearing it again now, and—you know what?—if this thing works, no bubble. If it doesn't work, it is a bubble."

How to define "work"? What function does bitcoin serve? Transactional? Unlikely in a country in which, by swiping your legacy plastic credit card, you get 2% cash back. Monetary? We took up the question with Murray Stahl, CEO and co-founder of Horizon Kinetics and another relatively early bitcoin adopter ([Grant's, July 29, 2016](#)). It's a store of value, says Stahl of Satoshi's handiwork, a monetary asset that's winning its place in the hearts and minds of the world's financially repressed. A member of the value-investment tribe, Stahl would seem an unlikely participant in what is turning into a super-FANG-quality levitation. Actually, it's not in the least incongruous, Stahl insists.

"Two years ago, I had no idea what bitcoin was," he relates. "I had no idea that it had any investment merit whatsoever. I wasn't even interested in it. I'm interested in cryptology, just as a hobby. You need to know something about cryptology to really understand it at its granular level, and I started learning about it. I got the working papers

of the person who said that he created bitcoin—Satoshi Nakamoto. Some of it actually has to do with the technology of the blockchain and how it operates, but some of it has to do with monetary theory. I saw immediately what he was driving at. He wanted to create a non-inflationary currency. That is really what he wanted to do. The first one that ever existed that no government could ever tamper with, and he did it."

No passive investor in stocks and bonds, Stahl says that he bought himself 20 computer servers, installed them at a North Carolina data farm and started his own digital-currency mining operation. Mostly, he says, he digs for Ethereum and Ethereum Classic and Zcash rather than for bitcoin. The servers solve for an algorithm—solve for a random number that has something like 100 consecutive zeros. Brute force is the only way to do it, Stahl explains: "You have to generate billions and billions of attempts."

Stahl estimates the cost of mining a bitcoin at \$1,200. As the market price is considerably higher than \$1,200 and the rate of rise is accelerating, we asked Stahl at what point he would consider selling his bitcoin collection (a sub-1% portion of his personal portfolio, he says). He replies that he's not selling: "I think that something has to replace the current monetary insanity. It may or may not be bitcoin. I don't know what it is. When you're worried about the monetary insanity, you're really worried about systemic risk. I'm worried about the system—the integrity of the system. You can't navigate that by working within the system. You have to be outside the system. Bitcoin is outside the system."

Bitcoin may be outside the system, but it is on the grid, and governments might yet have something to say about its impertinent challenge to the sovereign's right of debasement.

Next on our call list was an investor who took a shine to bitcoin after listening to Casares speak at the *Grant's* event. The investor—a friend of ours who asks to go nameless—was no immediate zealous convert to digital currencies, but he has warmed to bitcoin and its imitators as time has passed and the currencies' prices have risen.

"It's a speculation," he says. "You buy it when it goes up. I said to [a colleague], 'I own tulips at 40 cents a bulb.' There is no such thing as a bad price. I really don't mean to be flip. I've come to appreciate that there is a really significant number of wealthy people—very, very wealthy people—who have put real amounts of money into this thing and really believe in it. Tens of millions of dollars at a clip. They've got it in cold storage. They've got it on Coinbase [a digital-asset exchange in San Francisco]. They buy it through Genesis [the largest 'cloud bitcoin-mining company']. They're serious. They are not doing it in a wild-eyed way. They are

making a considered speculation that as this becomes functional—not as a day-to-day currency but as something that holds value—[that] as that happens, you're going from such a small installed base that prices really don't mean that much. Eighteen-hundred and fifty dollars doesn't really mean anything different than \$300 before, except that it is probably more attractive now because the reason that it got to \$1,850 is that lots more people are actually using it. When you put something in cold storage, you don't get it out again without a lot of difficulty, so that's interesting. I think that is very interesting. And, of course, the asymptotically limited number of chips that you're playing with is a little bit different than tulips. Infinite tulips could be created, but that is not the case here."

We asked our informant how long the world's governments would keep hands-off. "The ransomware is clearly bearish in the long run," he replies. "I think the down case for these currencies is where various governments just destroy them—shut them down, pass specific laws to make them illegal or introduce incredibly punitive sanctions for using them to evade tax. But they are only

going to do that after it becomes a big problem. If it is a small problem, they are going to do what the IRS did, which is, say, 'Well, for the record, it's a capital asset,' and they're sort of trusting you to report that. That's what they do when it's a small problem. If it is a big problem, they are going to take serious action, and that will be bad. But the way that happens is that people start doing it on a scale massively larger than today's scale, and I think that would be associated with higher prices."

Our friend has branched out from bitcoin into other crypto-currencies. He says he asks the developers of these microcap monies what's the point. What are their currencies intended to do? Often the developer replies that it's only a speculation. Yes, our source will say, he is aware that it's only a speculation, but—still—how do you intend to make money on your invention in the real world?

"And they all say the same thing," our friend concludes. "It's no problem, we're just going to convert it into bitcoin."

Toward the crypto-currency phenomenon, count us wide-eyed. Toward gold, count us (and not for the first time) bullish.

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