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From the Readers

COMMENTS ON THE RECENT BITCOIN ACTIVITY – MUCH ADO ABOUT NOTHING

As most people should realize, bitcoin is one of the most extraordinarily volatile assets ever created. That degree of volatility is likely to continue for the foreseeable future. Some people, quite understandably, might find this volatility to be quite intolerable. In that case, it should be self-evident that these people own too much bitcoin.

The two most recent episodes of volatility are due to, firstly, a dispute about how best to enhance the speed of the bitcoin blockchain transaction confirmation process. The dispute is between the supporters of something called Bitcoin Unlimited and a competing protocol known as Segregated Witness. The danger is said to be that an acrimonious dispute could lead to a so called "fork" in bitcoin, which basically means that there will be two versions of the blockchain.
The second concern is that there apparently is some type of computer "bug" in the Bitcoin Unlimited protocol. Although this problem can be remedied, of course, the danger is that there exist more problems of this type.

Although all of these questions are interesting, and can be debated from multiple perspectives, they are not directly relevant to our investment thesis: that bitcoin has the opportunity to become a world store-of-value currency of choice. This would be a non-inflationary currency that no central bank would have the ability to inflate. If successful, this would be a seminal event in the world of monetary history.

Consequently, from our perspective, technology is not of paramount importance. It is quite possible that an alternative currency such as ethereum develops superior technology. Yet, ethereum is inflationary while bitcoin – with its fixed supply – is not. There is no reason that bitcoin could not trade on the ethereum blockchain and be a very successful investment.
Essentially, if bitcoin gains acceptance, we believe that our investment will be successful. If bitcoin does not gain acceptance, we are likely to have a failure. It is for this reason that we closely monitor measures of acceptance rather than the mere fluctuations in the price, which is so volatile as to be maddening.

One measure of acceptance is Blockchain Wallets. This is nothing other than a place to store bitcoin. A greater number of wallets means that more people are buying some amount of bitcoin. One can find this statistic on a blockchain explorer website, such as blockchain.info. On this website, the reader will discover a chart called blockchain wallet users. As of this writing1, there are 12,957,995 users. The number of users has almost doubled in the past year. Roughly 18,000 new wallet users are created each day. Only 1,800 bitcoins are created each day. Let us say for

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the sake of argument that the average bitcoin wallet user wishes to buy 0.2 bitcoins. This means that, collectively, 18,000 new users buy 3,600 bitcoins a day (i.e., 0.2 x 18,000). This number greatly exceeds the supply of new bitcoins. This should cause bitcoin to rise in value. Of course, we don't know how many bitcoins the average new wallet users will purchase. However, 0.2 bitcoin costs about $250, so this is a reasonable assumption (but nevertheless only an assumption).

Another measure of bitcoin acceptance is something called bitcoin difficulty. In order to create bitcoin, the services of so-called miners are used. All the miners do, really, is transmit the new transaction block to every node on the blockchain. They are paid 12.5 bitcoins for every transaction block that they transmit, and one such transmission occurs, on average, every 10 minutes. These 12.5 bitcoins are currently worth roughly $14,800. Everyone would like to provide this lucrative service. However, in order to get the right to transmit a block, one has to guess a huge, in the way of number of digits, random number. The only way to guess is to try every conceivable combination. The speed with which these guesses are made is expressed in GigaHertz/second (giga means billion) and is called the hash rate. The current hash rate is 3,775,229,592 GH/s. In other words, there are billions upon billions of attempts per second. This can cost a lot of money. More importantly, this number increases almost every two weeks. If the number of attempts, the hash rate, rises, it is known that miners are investing more money in the mining process. The miners would not invest the money unless they believed that a bitcoin is worth more than the cost to produce it. All of this data can be found on a website called bitcoinwisdom.com. Please take careful note of the increase seen with each observation.

Difficulty History

Date	*Difficulty*	*Change*	*Hash Rate*
Mar 30 2017	499,635,929,817	5.03%	3,576,533,297 GH/s
Mar 17 2017	475,705,205,062	3.24%	3,405,230,497 GH/s
Mar 03 2017	460,769,358,091	4.54%	3,298,315,540 GH/s
Feb 18 2017	440,779,902,287	4.41%	3,155,225,442 GH/s
Feb 04 2017	422,170,566,884	7.43%	3,022,014,630 GH/s
Jan 22 2017	392,963,262,344	16.64%	2,812,940,600 GH/s
Jan 10 2017	336,899,932,796	6.05%	2,411,623,656 GH/s
Dec 28 2016	317,688,400,354	2.43%	2,274,102,150 GH/s

Source: https://bitcoinwisdom.com/bitcoin/difficulty

Thus, in summary, the number of wallets is growing, so we know that more people are interested in purchasing bitcoin. We also know that the difficulty of proving a block is almost always rising, yet the miners keep spending more money on bitcoin mining activities. Naturally, these miners wish to make a profit. These are two of the statistics that we regularly monitor. We will undertake to describe more of these in our future letters. We hope that you will become habituated to monitoring these statistics as we do, and that when questions arise, as will inevitably be the case with this new and high risk asset, you will not hesitate to direct your questions to our attention. We look forward to maintaining this dialogue. In any event, it is much less maddening to pay attention to the supply/demand indicators discussed above than to attend to the price gyrations of bitcoin.

