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Post-Musings

TRUE CONTINGENCY INVESTING AND BITCOIN

What is contingency investing? There are people who invest with the idea that they are ignorant of what will happen, as opposed to those who invest because they believe one of various scenarios is likely to occur. Will there be inflation or will there be deflation? Contingency investors do not try to determine the answer. They might simultaneously buy both gold and bonds.

Year to date through November 3, 2016, the SPDR Gold Trust ETF (GLD) received about $12.2 billion of new cash flow. As just one example of a bond fund, the iShares Core U.S. Aggregate Bond ETF (AGG), had $10.6 billion of cash inflow; there are, obviously, many other bond funds as well. The so-called "robot advisors" allocate some money to gold as a hedge against inflation, and allocate much more money collectively to bonds to provide for the income needs of clients and possibly as a hedge against deflation. The possibilities of success for these two sets of investments are mutually exclusive. We call that contingency investing.

Yet, if it really were contingency investing in its truest sense, perhaps the robo-advisor would have an infinitesimally small exposure to bitcoin, because bitcoin also has the possibility of a success scenario. As of the most recent reckoning, there are nearly 16 million bitcoins in circulation and there will never be more than 21 million. As of this writing, there are 9,653,153 Blockchain wallet users, and that number increases daily. Bitcoin now has an 83.3% share of the 640 cryptocurrencies. The number of cryptocurrencies is modestly in decline, while bitcoin continues to gain share.

If the number of bitcoin wallets continues to increase, and the number of cryptocurrencies keeps decreasing, bitcoin's market share of the cryptocurrencies will continue to rise. None of which is guaranteed, but if these trends *were* to continue, then it seems to be a reasonable supposition to assert that bitcoin could appreciate substantially. That outcome can be independent of the outcomes for gold or bonds. Rephrased somewhat, bitcoin is an example of an investment whose success and potential positive impact on a portfolio truly is contingent upon independent variables—that is, independent of the systemic variables that already affect (and possibly limit) the returns of conventional investments like gold or bonds.