

Right Move – KodakCoin, Wrong Move – Bitcoin. Really ?

- Published on January 16, 2018 on LinkedIn

Last week, we all read about how the announcement of KodakCoin had zoomed its stock price and also about how Jio now plans to launch its own coin. In the same breath, we read about 1 BTC has been valued at \$1785 as its real value. While, not commenting upon the exact value, the 2 points that it makes is - is that the price of bitcoin is overinflated and that the traditional market is recognizing the true worth of Crypto-Currency and starting to think about harnessing it.

My fintech background makes me only too aware of blockchain and its capabilities and limits, but the recent discussions about bitcoin with friends, industry players and sometimes the non industry players, often shock me. I hear a lot about bitcoin being the “non fiat currency”, “deflationary currency”, the unique “store of value” and finally the killer word “block chain”. Much of these are partly true – but often their impact is in different directions. Hence, this article

In this article, I seek to answer 4 key questions

- Is bitcoin a currency or an asset ?
- Why is bitcoin price wildly rising ?
- Is bitcoin’s valuation because of block chain ?
- Is bitcoin the future ?

Is bitcoin a currency or an asset ?

Clearly bitcoin started from its currency origin with the idea of transactions, but it has now become largely a speculative asset (which mistakenly is named “coin” and gives the literary understanding of “currency” while actually being a “Capital Asset”).

However, it can become a currency in future (approx. 12 months), by when the price will stabilise and by which time, the governments would

have taken a consolidated stand for/against it. The same is true for most cryptocurrencies – whether or not issued and governed by a central body.

Why is bitcoin price wildly rising ?

Wide Interest - Over the last 3-4 years, due to the combined effects of the lack of regulation on ICOs, the hype on block chain and the incessant focus on fintech disruption (with BlockChain as the torch bearer of this revolution) - the bitcoin and other cyptocoins have received tremendous interest. To add fuel to this fire was the citizen's frustration with the regulated currencies of the world, and the inability to transact directly between two parties without involving a bank or a card company.

As a result, over the last 3 years, the hype on ICOs have been tremendous and often without full understanding and often due to the lack of divided central banks coming together to issue joint statements that could have prevented the frenzy. In addition, of late, there has been a huge internet campaign by vested parties who have been marketing crypto currencies, as they see this as the exit route to their fortunes. There has also been sleek marketing and sales campaigns by the ICO world – with promise to make instant millionaires – which is an instant hit esp if it is combined with some compelling videos – so much so that ordinary people have started jumping in to buy a few coins – in South Korea, China and even in India.

Moreover, the listing of Bitcoin on CBOE and CME was interpreted as a huge stamp of approval, which caused the frenzy to be fed.

Market Manipulation - On top of all this, is the market manipulation of prices in the last few months, and a few players moving the market significantly. Why this is so, is actually quite simple – everyone, who trades, does not operate in the market at the same time instant and therefore there are only a finite number of traders in the market on any given date and time. Therefore, it is possible for the market players to manipulate and move the market in one direction or the other. So, as long as you let this crypto-market determine the value of a currency, then you will have to wait for a year of instability until the market over a period of time becomes wide enough and large enough to do its own price discovery and finds its own place and has enough players everywhere to ensure that no new entrant has enough fire power to move the asset in one direction.

Net-net, this wild interest will continue, unless the governments take a consolidated stand. The US government's silence on this has been strange and finally the recent talk of a digital dollar is probably only apt though late. South Korean government is considering moves to curtail and this is probably another step in the right direction. Indian government has been largely ambivalent and has said only the obvious – that it does not recognize the crypto currency today – while carefully avoiding making any statements about the future.

The reality is that, the number of bitcoins are limited and the more consumers demand it, the more bitcoin prices will go up. How long the consumers will demand it, will however depend upon how much use they can have of it – and the usage will depend on how comfortably they can use or sell safely. On the other hand, the merchants and regulators who will accept the bitcoins (for transactions other than the buy/sell on the bitcoin exchanges) will do so only when the value is stable or they are confident that the price will only rise.

So, this looks a good time to exit the Bitcoins before the major negative announcements come in – but in case these negative announcements do not materialise – the jamboree of price rise will continue.

Is bitcoin's valuation because of block chain ?

No – though I would agree, that block chain enables trust and trust enables exchange of value and trusted exchange of value enables acceptance. But if wider acceptance in turn, changes the value, then trust is lost. Hence, today, bitcoin has lost trust as a currency. So its valuation is due to elements other than the technology.

Is bitcoin the future ?

The reality is that cryptoassets of today can become cryptocurrency in the future. However, for this to happen, there are a few essential baseline criteria that need to be met. Apply the tests of Universal Acceptance, Security, Durability, and Stability to see whether a cryptoasset will become a cryptocurrency. All of these are important and where the cryptoassets will be distributed by the central bodies, they will have more value. I will not be surprised if multiple central banks – come up with the

G7, G8, G20 or even Gx coin as they really should have had, with the right AML checks and then that will rule the world.

The consumer banks, commercial banks and central banks have most to lose from bitcoins and other ICOs. Unfortunately, the central banks have been slow to realize this and to come to a quick conclusion. The governments have done a disservice to the citizens by not issuing their own digital currencies and leaving it to the banks and credit card companies to become the vehicles of the digital money supply and derelicting their own duty to provide this with the changing times and aspirations of the consumer.

It is to this last point, therefore, that my prediction is that, while the central banks are still slow in coming up, the more reliable cryptocurrencies being issued by large corporates and vertical leaders (Kodak and perhaps in future by Fuji and Jio in India etc.) will become the true digital currency for specific industry verticals.

Till then, and in all likelihood 3-6 months and perhaps to a lower probability another 12 months, the bitcoin, will rule and enjoy both the legal as well as the murky world of asset appreciation. to bitcoin owners, I say, enjoy the ride while it lasts, but be ready for a sharp and painful fall into the ravines too - and advise you to get off your horse before it plunges into the depths.

Note - This article addressed only bitcoin (and not any of the other coins), except where referred to as cryptocurrencies. There are several other coins rapidly emerging which are addressing specific segments. Though similar to bitcoin, in term of technology, each of them is worth a separate discussion owing to what they bring to the table.