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# Curious about Cryptocurrency

## How cryptocurrencies have burst onto the scene

What is cryptocurrency? There has been a lot of excitement and news surrounding cryptocurrencies. This factsheet will explain what bitcoin is, why it is so prevalent in today's news, and our views on cryptocurrency.

### Introduction

Unless you have been avoiding the news for the past few months you will have seen lots of comment on bitcoin and other cryptocurrencies. The commentary on bitcoin ranges from outright panic about bubbles through to it being the future of all commerce and anyone not buying now will regret it. This brief note is to outline our current thoughts on cryptocurrencies and their use by investors in general and our clients in particular.

### What is bitcoin?

Bitcoin was the first and is still the largest of a range of 'currencies' which are solely digital. They normally have no central bank to control supply and are primarily rules based in their creation. This in theory should give them some of the benefits seen from traditional safe haven assets such as gold as their limited supply should instill some protection from inflation.

Bitcoin and other cryptocurrencies are designed to allow transparent and almost frictionless transactions without needing to rely on traditional financial firms. As such it should eventually be possible to transfer any amount of money across the entire world with bitcoin for a fraction of the cost of traditional payments and taking no longer than ten minutes. As such, like most innovative technologies, the scope for use is vast and exciting.

These new currencies are primarily based on technology around the concept known as blockchain. This technology has some very exciting applications in areas such as contract law and security as well as multiple possible uses within finance.

### So what?

Bitcoin has made some people serious amounts of money. Someone investing £ from 1 January

to 12 December 2017 could have made over 1,000% return. However, there have been periods in 2017 where your bitcoin investment would have fallen more than 25% in a few hours, or over 30% in a few days. And many people believe that at some point the value of Bitcoin will plummet perhaps if Bitcoin is judged to be inferior to a rival cryptocurrency, or if a price bubble bursts – perhaps as investors decide to cash in their gains and a panic develops.

Alongside the rapid technology improvements which have allowed these new currencies to be created there have also been huge steps forward in access to trading and investments. With anyone able to set up an investment account online in seconds and start buying (and even short selling!) currency pairs, stocks, indices, commodities and now cryptocurrencies there is more hype than ever around being able to get rich quick with day trading.



# **galeandphillipson**

## managing your wealth



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The combination of enormous profits made by some early (and even not so early) investors and the ease of trading these new currencies has led to enormous interest in the area.

### Our view

We do not have any direct exposure to cryptocurrencies in our portfolios. To date these currencies have been incredibly volatile compared to almost any other area of investment. Combined with that we believe there is a significant risk of significant capital losses should the current situation prove to be an asset bubble, or if we see significant steps to regulate the industry.

Our approach to investing with our clients is to build long term focused, diversified portfolios of asset classes we are confident in holding for sustained periods. We do not attempt to make short term profits by day trading and we do not take speculative bets on relatively unknown assets.

As such we do not currently feel these asset classes have a place in our portfolio. That is not to say we do not keep a close eye on the developments in the technology and the market. Blockchain technology looks like a possible source of innovation in a wide range of industries and if payments systems (such as bitcoin) allow for near frictionless payments internationally it could lead to a significant reshaping of the capital markets. If we ever see

these new currencies used to price 'real' assets or contracts then there will likely be a real rationale for holding exposure to them in a diversified portfolio.

For now the investment case for cryptocurrencies seems limited to risky day trading strategies or speculative bets on the long term winners as the market develops. For us this rules out holding them in our portfolios.

### But what if you want some exposure?

If you want to gain exposure to these cryptocurrencies you should consider what exactly you want to have exposure to, and then how you want to do it.

Firstly you should be aware of the ever increasing breeds of cryptocurrencies. Some of them are for specific purposes (recently we saw the launch of a poker specific coin for example) and some vary purely due to the intricacies of their technology. If and when cryptocurrencies become a mainstream payment tool it is possible there will be a consolidation or a format battle. Long term investors will likely want to avoid being sat with a virtual version of Betamax to the VHS of the crypto work, at which point the value of crypto-currencies that appear to be losing the format war could reduce to zero overnight – or

even more quickly.

Of course you may just be excited about the technology in general and want to make sure you have exposure to the companies best placed to profit from it. That may be a less risky way to get some exposure to such a new technology.

Once you are confident of what you wish to be exposed to you can decide how to achieve it. This is likely to be one of four ways; directly buying the currency, buying shares of businesses involved in the industry, synthetic exposure through some form of derivative, or by buying a fund which then invests in a basket of assets on your behalf.

### Conclusions

We do not have any plans to hold cryptocurrencies in our portfolios for now. Although an incredibly exciting technology and a possible tool for speculative investors or day traders we don't yet believe they have a place in the long term focussed diversified portfolios we construct and manage for our clients.

There are a variety of ways to get exposure to cryptocurrencies, each has its own risks to be aware of and possible benefits. Should we change our portfolios to allow for the impacts of these new currencies we will be sure to inform all of our clients accordingly.

