



The Crypto Craze and the Cheshire Cat



Photo by [Tim Hübner](#) on [Unsplash](#)

'If you do not know where you are going any road will get you there.'

— Cheshire Cat

If you watch or read any news you are probably aware of the current crypto craze. Cryptocurrencies such as Bitcoin and Dogecoin, to name two in the recent spotlight, are causing ripples in the investing world. There even seems to be mini battles going on in the who's who of the financial elite over which crypto is the best. Elon Musk recently hosted Saturday Night Live and made a sly comment about Dogecoin. This one comment sent the cryptocurrency into a downward spiral, displaying its volatile nature. Only days later Tesla stated they will no longer accept Bitcoin as payment for cars due to the environmental impact of mining the currency. It is worth noting this was after the company had made a rather large previous investment in Bitcoin. Is this move a sincere effort from Musk to take responsibility for his carbon footprint or merely a way to take ownership of the next cryptocurrency trend? Only time will tell.

Cryptocurrencies cause genuine curiosity! Everyone has heard stories of those who have become rich from dabbling in the pool of cryptocurrency. These fabled tales lead to others thinking they could be next to get rich. After all, limited supply means a constantly rising price and an increase in your return, right? Not exactly, but it is easy to see how some investors buy into this myth and think they will be the next crypto lottery winners. When an investor thinks this way, it usually means emotions have taken the driver's seat. And let's be clear, cryptocurrency capitalizes on emotions. Let's look at Bitcoin for example. From its early hyped beginnings, excitement around keeping user identity private, and choosing your own fees; those who were interested bought in — heart and bank account. Within the world of Bitcoin though, there seems to be a boom/bust cycle which only adds to the emotional rollercoaster of the cryptocurrency ride.

the bitcoin roller coaster

btc price in usd

1000

750

500

300

100

50

1

0.5

2009 2010 2011 2012 2013 2014 2015

that's a nice little ride

Wikileaks accepts Bitcoin donations
Jun. 14th 2011
US\$19.25

First halving
Nov. 28th 2012
US\$12.25

Cyprus bail-in
Mar. 25th 2013
US\$74.02

Ross Ulbricht arrested and Silk Road closed
Oct. 2nd 2013
US\$133.03

this is getting fun

US senate hearing on Bitcoin
Nov. 18th 2013
US\$685.75

Price reaches US\$1200 at Mt. Gox
Nov. 29th 2013
US\$1242

i'm gonna die!

so this is normal..

Mt. Gox files for bankruptcy
Feb. 28th 2014
US\$550.46

False Report on Bitcoin ban in China
Mar. 21th 2014
US\$583.54

Ross Ulbricht convicted
Feb. 4th 2015
US\$225.89

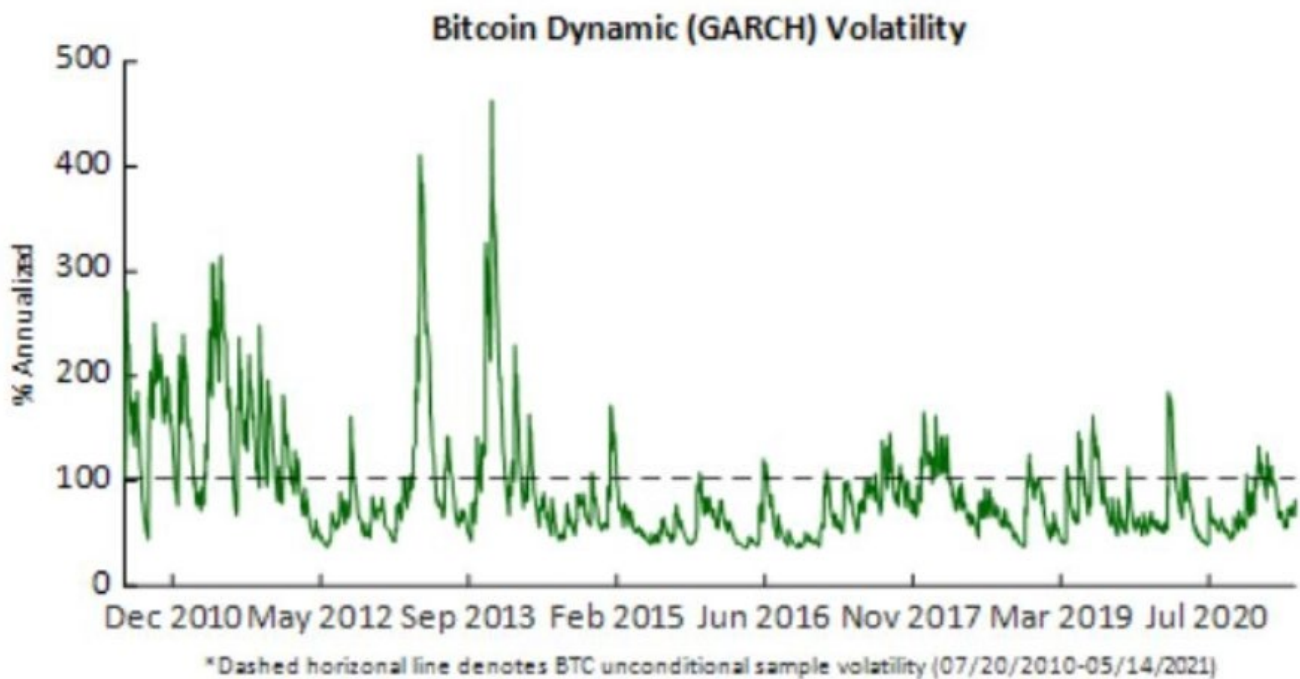
who would've guessed. i'm alive!

under construction!

BTC Prices from <https://bitcoinhelp.net/know/more/price-chart-history>

By Patrícia Estevão

¹ Image sourced from [Bitcoin Price \(weusecoins.com\)](https://www.weusecoins.com/)



² Image sourced from [BNN Bloomberg](https://www.bnnbloomberg.ca/), 2021.

What is cryptocurrency?

Vanguard defines cryptocurrency as a digital or virtual means of exchange that defies the categorization we are used to such as traditional currency, commodity, or asset class (even though they do share some of the same characteristics)³. While Forbes simply refers to it as a medium of exchange that is digital, encrypted, and decentralized⁴. Possibly the most well-known cryptocurrency is Bitcoin. According to Bitcoin.org, one of the most positive attributes of the currency is that it is a 'peer-to-peer payment network powered by its users with no central authority or middleman'⁵.

¹ Image sourced from [Bitcoin Price \(weusecoins.com\)](https://www.weusecoins.com/)

² Chart source: BNN Bloomberg.

Peterseil, Y. and Worrachate, A. (2021, May 17). Elon Musk is now blowing up the Wall Street case for Bitcoin. BNN Bloomberg. Retrieved from [Elon Musk is now blowing up the Wall Street case for Bitcoin - BNN Bloomberg](https://www.bnnbloomberg.ca/elon-musk-is-now-blowing-up-the-wall-street-case-for-bitcoin-2021-05-17)

³ The case for caution with cryptocurrencies. (2021, March 10). *Vanguard: Investor News*. Retrieved from [The case for caution with cryptocurrencies | Vanguard](https://www.vanguardinvestornews.com/cryptocurrencies)

⁴ Ashford, K. and Schmidt, J. (2020, December 18). What is Cryptocurrency? Retrieved from [What Is Cryptocurrency? – Forbes Advisor](https://www.forbesadvisor.com/what-is-cryptocurrency/)

⁵ Frequently Asked Questions. (2009-2021). What is Bitcoin? Retrieved from [FAQ - Bitcoin](https://bitcoin.org/en/faq)

What is Bitcoin?

Bitcoin is the first cryptocurrency that is widely recognized and accepted as a form of digital money. It is independent of any governance, can be transferred globally without the need for a centralized authority, its monetary policy cannot be altered, and often is referred to as a software protocol or monetary unit⁶.

The origin story of Bitcoin reads like something from a fiction novel and can be traced back to the infamous Bitcoin white paper published by Satoshi Nakamoto in 2008. Initially Bitcoin was launched in 2009 by Nakamoto. However, many wonder if it was created by an unnamed group of technologists under the pseudonym of Nakamoto⁷. Nakamoto seemed to move on from Bitcoin and no one knows his, her, or their whereabouts today, only adding to the intrigue.

For all those early Apple adopters who saw the potential of how technology could change the world, Bitcoin may feel like a long-lost cousin. Many believe Bitcoin and cryptocurrency can change the world too. This is a currency based on technology and math that uses blockchain to keep an ongoing ledger of all transactions made within Bitcoin. Blockchain attaches a unique digitized, identifier to each and every bitcoin and is a more widely accepted technology in the world. It is even being used in Africa for real estate transactions and by diamond giant De Beers to curb the flow of conflict diamonds, tracing every move on the diamond ledger⁸.

Bitcoin uses blockchain to chronologically keep track of the proof of work of each transaction made on the ledger. This system is essentially how Bitcoin proves its transactions are legit because each is registered and traced in the blockchain. This makes it increasingly difficult to reverse transactions because who wants to go back and recalculate all proofs of work on the subsequent transactions that make up the blockchains of the cryptocurrency? Not me thank you very much.

How do you mine Bitcoin?

Those who mine Bitcoin use special software to solve math problems and, in exchange for the answers, they are issued a certain number of Bitcoins⁹. The miners who receive Bitcoin as payment will eventually begin receiving transaction fees from those who use their Bitcoin,

⁶ What is Bitcoin? (2021). Retrieved from [What is Bitcoin? | How Does Bitcoin Work? | Get Started with Bitcoin.com](#)

⁷ Qureshi, H. (2019, December 29). Satoshi Nakamoto. *Nakamoto*. Retrieved from [Satoshi Nakamoto](#)

⁸ Ray, K. (2018, November 8). The Diamond Blockchain: Ending Blood Diamonds with New Tech. COINCENTRAL. Retrieved from [The Diamond Blockchain: Ending Blood Diamonds with New Tech \(coincentral.com\)](#)

⁹ What is Bitcoin Mining? (2011-2021). Retrieved from [Everything you need to know about Bitcoin mining](#)

reinforcing the use of the ongoing ledger of transactions. All this mining does use an extreme amount of computer power and as environmental chatter increases, the power required to mine will come under more and more scrutiny. Remember Musk's withdrawal of Bitcoin payments for Teslas?



**Multiply this small corner of a mining warehouse and you get a better idea of the power used in mining.*

¹⁰Image by [Лечение Наркомании](#) from [Pixabay](#)

So why all the Bitcoin buzz?

Within loyal followers, there is a view that Bitcoin creates a kind of new world utopia. Bitcoin's code will cap production at 21 million and for many this adds to the hype and idealistic vision they have bought into. A limited supply of Bitcoin makes it a rare commodity, and some see it as a valuable asset to hold, while also offering protection against inflation.

Bitcoin users also can enjoy benefits such as buying items anonymously and quickly, easily exchanging Bitcoins between countries because they are not tied to any one country like regular currencies, and businesses may adopt use of the currency because they won't have to pay credit

¹⁰ Image from [Farm Mining The Ethereum - Free photo on Pixabay](#). Image by [Лечение Наркомании](https://pixabay.com/users/rebcenter-moscow-6351207/?utm_source=link-attribution&utm_medium=referral&utm_campaign=image&utm_content=2852025) from [Pixabay](https://pixabay.com/?utm_source=link-attribution&utm_medium=referral&utm_campaign=image&utm_content=2852025)

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card fees¹¹. The use of the cryptocurrency ultimately removes the need for a middleman, making exchanges directly peer-to-peer.

Other avid supporters see Bitcoin and cryptocurrencies as the currency movement of the future and want to be part of this chapter in the financial history books. A Cornerstone Advisors consumer survey showed that 60% of crypto owners would use their bank to invest in cryptocurrencies. Imagine if banks did get on board and began offering cryptocurrencies? That would indeed change the future of investing and banking for years to come¹².

The downside

Everything about Bitcoin seems all too easy right? Well, yes, including how quickly your cryptocurrency can disappear. Remember, possible high reward can also mean possible high loss too. Transactions are non-reversible and unforgiving. Oops, you sent the wrong person a Bitcoin payment, now what? You must pay the right person and you cannot get the earlier payment back.

Anonymous purchasing power is great when you want to surprise someone. But if someone wants to buy prohibitive items they can do so, and no one will ever be able to trace it back to them. Or in the case of Colonial Pipeline's recent digital payment (think cryptocurrency) to the criminal ransomware provider DarkSide, this payment cannot be traced to a specific individual which protects criminals and their activity¹³.

A major downside to using cryptocurrencies is that they are unregulated, creating prime ground for fraud and scams. Being unregulated also can make accessing your asset difficult as no party is required to accept a payment from you in the form of digital currency. In the long-term, investing too much in a speculative asset could mean you miss out on traditional asset classes that are part of a sound financial investment plan¹⁴.

To invest or not to invest, that is the question?

As I thought about this buzz topic, my mind drifted to the old childhood story of Alice and Wonderland. Throughout the story it's difficult to tell dream from reality. Take the Cheshire Cat

¹¹ Yellin, T. (2020) What is bitcoin? *CNN Money*. Retrieved from [What is bitcoin? - CNNMoney](#)

¹² Shevlin, R. (2021, April, 19). The Coming Bank-Bitcoin Boom: Americans Want Cryptocurrency in Their Banks. *Forbes*. Retrieved from [The Coming Bank-Bitcoin Boom: Americans Want Cryptocurrency From Their Banks \(forbes.com\)](#)

¹³ Matthews, C. (2021). Bitcoin extortion: How cryptocurrency has enabled a massive surge in ransomware attacks. *MarketWatch: Microsoft News*. Retrieved from [Bitcoin extortion: How cryptocurrency has enabled a massive surge in ransomware attacks \(msn.com\)](#)

¹⁴ The case for caution with cryptocurrencies. (2021, March 10). *Vanguard: Investor News*. Retrieved from [The case for caution with cryptocurrencies | Vanguard](#)

for instance who mysteriously appears with a wide, menacing smile. He speaks in riddles and sometimes even sounds wise. As quickly as he appears, he disappears. Symbolically he represents the flawed logic of Wonderland and its strange characters¹⁵. This seems like the perfect metaphor for Bitcoin and the crypto craze.

‘If you do not know where you are going any road will get you there.’

Within investing, this quote rings true. As financial planners, we help clients figure out where they want to go and how to get there. We are accustomed to dealing with emotional investing and understand the impacts of behavioral finance on investing. The last thing we want is for clients to wander aimlessly with a dream but no plan of how to achieve that dream. We are big on purpose at our firm so what is the purpose of buying Bitcoin?

For some, there is no purpose. You are not enticed by the shiny new “Bitcoin” or the hype. You are happy to stay invested in a regulated market with third party assurances. For others, you are curious. You may see this as a potentially exciting opportunity and would like a little exposure to the cryptocurrency market. We can appreciate both views and will work with you on investing a reasonable amount into cryptocurrency while staying unemotionally focused on your goals. I have always said and believed if you want to speculate, we can do that with a percent of your investments. But recognize that with any speculative investment — it can go to zero. We understand some investors are comfortable with these higher levels of risk that cryptocurrencies present.

As planners we also work hard on tax strategies for our clients and dealing in the arena of cryptocurrencies is no different. According to The Balance, every Bitcoin transaction is taxable. These transactions fall into the capital gains tax bracket or net investment income tax¹⁶. So, it is good to keep the tax implications in mind when starting to dip your toe into the cryptocurrency pool and make sure you keep GOOD records of all your transactions!

¹⁵ Cheshire Cat Symbolism: What You Should Know. (2021) *The Big Deer*. Retrieved from [Cheshire Cat Symbolism: What You Should Know - The Big Deer](#)

¹⁶ Perez, W. (2021, May 8). How Bitcoin is Taxed. *The Balance*. Retrieved from [The Tax Implications of Investing in Bitcoin \(thebalance.com\)](#)



14 Image sourced from The Balance.

The final word

Bitcoin has some big fans and has had for many years. Our job though, is not to act as a fan would. Our job is to always remain neutral and unbiased when offering our financial advice. The only thing we will not waiver on is our support to help clients achieve their individual goals, we are your fans. If you would like to speak about investing in Bitcoin, please reach out to us. Let's have the conversation and see if it's a good fit for your future or just a fleeting thought. We will put some resources on our website that will provide access to additional research and articles about this Crypto Rabbit Hole!

Additional Website Resources:

1. [Bitcoin: What Is It? \(thebalance.com\)](https://www.thebalance.com/bitcoin-what-is-it/)
2. [The case for caution with cryptocurrencies | Vanguard \(investornews.vanguard\)](https://investornews.vanguard.com/investor-news/articles/the-case-for-caution-with-cryptocurrencies/)
3. [Bitcoin FAQs | Charles Schwab](https://www.schwab.com/learn/story/bitcoin-faq)