

## Brad Brain: It's getting flaky out there

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Smart Money



Brad Brain: "For something to function as money it needs a couple of characteristics. It needs to be widely accepted, and it needs to store value. In other words, people have to agree to use it and they have to have confidence that they will be able to keep using it. Bitcoin fails both tests."

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Maybe it's the weirdness of 2020. Maybe its is the echo chamber of social media. But it seems to me that some flaky ideas are finding a toehold.

Some of the questions I have fielded lately include absurd conspiracy theory nonsense, political propaganda masquerading as economic policy, and the prospects of cryptocurrency as an investment. The common theme here is bewilderment.

Of these, cryptocurrency makes for the best article, so let's talk about that. I readily admit that I am a crypto cynic. In fact, in 2017 when bitcoin hit \$9500, I shot a video saying that "when it comes to all this speculation on cryptocurrencies, you can unequivocally count me out."

Now, in the time from then until now, bitcoin has rocketed up to more than \$40,000. So, some people will look at this and think I messed up on that call. I can't agree with that. If you foolishly play with dynamite, but it hasn't blown your hand off yet, that is not the same thing as saying it was a good idea in the first place, nor that it is safe to continue.

In fact, the shadowy world of cryptocurrency is so fraught with deceptions, irregularities, and frauds that next week we will run Part Two of this column on investment scams and what to watch for, and how to protect yourself.

But let's set market manipulation aside for a moment and just look at the supposed business case for cryptocurrency. Proponents of cryptocurrency will cite the benefits as a digital currency; a new way for people to buy stuff.

Here is the thing. For something to function as money it needs a couple of characteristics. It needs to be widely accepted, and it needs to store value. In other words, people have to agree to use it and they have to have confidence that they will be able to keep using it. Bitcoin fails both tests.

I have never once in my life seen any thing that I wanted to buy priced in cryptocurrency. Certainly, it happens sporadically, but crypto as a medium of exchange is still very much a fringe idea. People buy and sell stuff in dollars, not crypto.

As a store of value, crypto is even worse. In May of 2010, a Florida man famously paid 10,000 bitcoin for two large pizzas. Today that 10,000 bitcoin would be worth more than \$340 million USD. Clearly the value of the pizza did not change by that much, and this type of price volatility is not storing value.

Supporters will claim that cryptocurrency is more than just a digital coin; it's the blockchain technology that will allow for cool new developments. Perhaps blockchain really is a revolutionary technology. That is no assurance whatsoever that any particular digital coin will survive though.

Here's a historical example of a revolutionary technology: the introduction of the automobile. Totally changed life as we know it. Now almost every family has at least one.

Imagine if you had the vision to invest in an automobile company at the turn of the last century. Think of all the money you could have made, right?

Well, maybe. If you ended up picking the right one. But there were literally hundreds of automobile manufactures in the United States, and 99% of them are now defunct. If you picked General Motors, you did well. If you picked the Stanley Steamer, not so much, despite what some perceived at the time as technological superiority.

The bottom line is that just because something has rocketed up in price does not make it a good investment. Remember internet stocks in 1999? Remember U.S. real estate in 2007?

Will cryptocurrency have staying power? Will people make money trading crypto? These things remain to be seen.

What is certain is that these ideas are not investments, they are speculations. And when speculating, one needs to be prepared to lose part, or perhaps even all, of their money.

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