

Sex, Bitcoin and Kubus

The year is 1984 and the smell of rotten milk hangs over our back porch. No, my mother did not forget the milk outside, its Adriaan Nieuwoudt and his rotten milk concoction business, Kubus, that was supposed to make millionaires of my parents. You were supposed to send the dry rotten milk powder to Mr. Nieuwoudt in an envelope to Garies on a weekly basis and a month later you are rewarded with a fat check for your “effort and knowledge as milk powder grower.” The long and the short of this R 140 million fraud scheme was that you would make up your original investment within a month or two. After that, everything else is pure profit. This obviously falls in the “too good to be true” category. The story was that the powder was to be used in some or other expensive skincare product which was why he could pay you so well for something that seemed so worthless. The fact that I am not yachting in the Bahamas should be a clue as to how well this worked out.

Now, 34 years later, it appears that the same level of hype surrounds this thing called Bitcoin. Despite numerous articles being written in recent months by experts warning that this will not end well, the number of questions I get on the subject increases weekly. This is not another technical article on what Bitcoin actually is, it's connection to blockchain technology or whether it is a currency or an investment opportunity. This article is more about the psychology behind investment bubbles and the part of the brain that is attracted to overnight wealth (the same part of the brain where sexual stimulation originates) and how the prospect of overnight wealth (just like the prospect of bedroom sport) can have a **numbing effect on rational thinking**.

The price of Bitcoin at the time of writing this article sits at R 52,700 for 1 Bitcoin. The highest price to date was on 02 September 2017 at R 64,175 per Bitcoin. On 02 September 2010, 1 Bitcoin only cost you 45c. This represents a price increase of **445% per annum** over the last 7 years. To put it differently, if you purchased R 10,000 Bitcoin 7 years ago it would be worth R 1.4 billion today. Now stop right here, take a deep breath so that the oxygen can give your brain a chance to think clearly and ask yourself whether you think 1) That it is possible in any arena other than a massive speculative bubble and 2) If you think that this is sustainable over the next 5 years or even 1 year? Just to put things into perspective:

- According to <https://coinmarketcap.com/> the total crypto currency market is currently worth about \$137.5 billion. This would make it the 74th biggest economy in the world if it was a country.
- There is already **1,128** of these so called crypto currencies of which Bitcoin makes up about 50% of the “value.” People like to rationalise by arguing that the reason Bitcoin is so valuable is because there is a limited supply. That is as good as saying you should pay me R 10 million for my Toyota Hilux because there is only one of them.
- Bitcoin alone has a market capitalization of \$ 65.5 billion. That is about the size of SAB, a company that has been around for more than 120 years. Remember that these “coins” are computer generated as payment for solving algorithms. Bitcoin does not generate income nor does it pay a dividend. The value thereof is therefore determined purely on a perceptual basis. Am I the only one smelling rotten milk?
- If Bitcoin were to grow at half the rate that it has until now it will be worth more than the entire American economy.

Schoolchildren, retired pastors and hairdressers (with respect to these professions) are currently buying Bitcoin for no other reason than the fact that it's value increased (past tense) astronomically and hope that it will continue at the same rate going forward. The price of Bitcoin is currently being driven by brainless speculation. The same approach that will at some point drive it all the way down again. There are very few indicators that predict a turn for the worst as well as this level of herd behavior.

After hearing all of the clever talks on blockchain technology and how this will change the world, crypto currencies still remain a method for transferring funds from point A to point B and the math behind this is simply not sustainable. The obsession with Bitcoin to me is like someone paying millions for a checkbook so that they can write out R 50 cheques.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.

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I will say THIS and run the risk of being teased for the next year or so while the value of Bitcoin continues to rise: I have no idea what the real value of Bitcoin is, but it is somewhere between the current price and zero and if I were to guess I would guess closer to the latter. The valuations currently surrounding these crypto currencies simply defy logic and investors would do well not to extrapolate the past into the future. **I would like to further say that if some form of intervention does not happen soon this will be the next subprime crisis.**

How does this play out? I have no idea but I assume some sort of external intervention will be a catalyst if something else does not go wrong before then. Even in the absence of an external intervention the popularity of Bitcoin will fade and another will take its place (Ethereum, Ripple or Litecoin) until the whole house of cards burns down and everyone starts running for the same small exit door.

Out of a financial planning point of view I would just like to say the following: If you have a gambling spirit you can dare a couple of bucks, but do not risk using any money you might miss in future. You have to be able to lose everything without it making a difference to your financial position, because the chances of that happening in my opinion is very good.

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