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INSIDE DIGITAL ASSETS
with RIC EDELMAN

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BITCOIN VS. GOLD

By Ric Edelman, Founder, Digital Assets Council of Financial Professionals

Every financial advisor knows someone who's a gold bug. Folks who distrust the government, eschew paper assets and fear inflation wrought by monetary and political instability. They want to hold their money – and besides, gold is pretty to look at.

But is gold soooo 20th century? Many say gold needs to step aside. There's a new "digital gold" in town, and its name is Bitcoin.

So. You have clients who own gold. You might even have the SPDR Gold ETF in your portfolios. Should you be recommending that your clients sell gold and buy bitcoin?

Let's start with the case for gold. People offer many reasons justifying their ownership of this asset, including:

- Gold has been a store of value for 5,000 years – offering confidence other assets can't match.
- Gold protects against currency deflation, geopolitical uncertainty and product-price inflation.
- Gold is a real physical asset – not a paper representation of an asset like money.
- Gold has many commercial uses. It is inert; doesn't tarnish or corrode; requires no lubrication, maintenance or repair; and can be melted and easily made into wire, hammered into micro-thin sheets or alloyed with other metals. It conducts electricity and is nonallergenic. Because of its beauty and luster, gold is most frequently used in jewelry. It's also used in electronics, the space program and health care (including dentistry and treatment for rheumatoid arthritis and cancer). Long connoting excellence, Olympic medals, the Oscars and Grammy Awards are all made of gold.
- Supply and demand: gold mining has been declining since 2000 while demand has grown. This supports the thesis that the price will rise.
- Gold is not positively correlated to stocks or bonds, making it an excellent addition for portfolio diversification.

- There are many ways to buy gold – bullion, gold coins, stocks of gold mining companies, gold futures contracts and gold ETFs.

Nonsense, say bitcoin proponents. They note that gold's history is irrelevant; it's the future that counts. Also, gold's performance against inflation, deflation and the dollar is iffy at best – and when the world collapses, it won't be gold you want but bullets and whiskey. As for being a physical asset, a million dollars is about 35 pounds of gold. Try lugging that around all day.

They also note that gold dealers, prices and fees are not regulated, and while you can choose securities, many (such as gold mining stocks) often deviate from the metal's price. Because gold never vanishes or expires, its supply grows every year – meaning rising demand is needed just to prevent prices from collapsing.

Bitcoin, by contrast, is the only truly noncorrelated asset class providing outstanding benefits to portfolio diversification (improved returns with lower risk). As a digital asset, it is the most convenient asset to own – accessible via the internet anytime, anywhere. The bitcoin network has never been hacked, giving investors a high degree of confidence, and there are thousands of commercial uses – transforming every element of commerce on a global scale.

All this leads many to conclude that bitcoin and blockchain, the underlying technology built to create bitcoin, are the most revolutionary technological innovations since the internet itself. In fact, many call bitcoin "Internet 3.0" – whereas the original internet connected people (think Facebook) and Internet 2.0 connected things (Bluetooth), Internet 3.0 connects money (Bitcoin).

"Bitcoin is the only truly noncorrelated asset class providing outstanding benefits to portfolio diversification..."

Yet the most compelling argument of all is the fact that bitcoin's supply is truly fixed, unlike that of gold. Only 21 million bitcoins will ever be produced – a fixed supply in the face of sharply rising demand. In its early days, only individuals bought bitcoin. Today, institutions are – from endowments and Fortune 500 companies to billionaires and hedge funds. There are only 47 million millionaires in the world; if they each wanted just one bitcoin, they couldn't get them. This creates the most incredible supply/demand opportunity in history – virtually guaranteeing massive price increases, some say.

Who says that? Tom Fitzpatrick, for one. The global head of Citibank CitiFX℠ TECHNICALS,says bitcoin's price will reach $318,000 by year-end. Guggenheim pegs bitcoin's future price at $400,000. ARK Invest says bitcoin will reach $500,000. And the Association of Governing Boards of Universities and Colleges says, "Cryptocurrency has already produced hundreds of millionaires, a number of billionaires and may produce the world's first trillionaires in the next decade."

So, which is it? Gold or bitcoin?

I've been engaged in the bitcoin community since 2012 and founded DACFP in 2018, creator of the Certificate in Blockchain and Digital Assets® for financial advisors. Everyone knows I'm a strong bitcoin proponent. That said, I believe the "gold vs. bitcoin" debate is silly.

I've never understood why "bitcoin" and "gold" ever appear in the same sentence. The debate is a manufactured contortion by extremists who believe the only way they can be right is if everyone else is wrong.

Let's end the debate. There's no need to choose between the two. Instead, if you are truly a disciple of portfolio diversification, you should own gold and bitcoin! The two are like stocks and bonds – you own both of them as part of a diversified portfolio, don't you? Gold and bitcoin are no different.

Don't like gold? Don't like bitcoin? So what. You already have assets in your client portfolios that you don't like. You own them as part of a broadly diversified portfolio. Gold and bitcoin are no different.

Stop this foolish debate. Let's argue instead about whether your clients should own bonds during a period of rising tax rates, interest rates and inflation. Hey, I'm just trying to give y'all something worthwhile to argue about. Because gold vs bitcoin ain't it.