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with RIC EDELMAN

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THREE REASONS WHY CRYPTO IS HERE TO STAY

By Jake Ryan, author of *Crypto Investing in the Age of Autonomy*

Crypto is having its moment. From late-night talk show hosts to blue chip institutional investors—everyone's got a hot take on bitcoin and the blockchain. But will it last? More importantly: Should you bother taking time to understand how it works? While it's smart to be skeptical about anything getting so much hype, you must also realize that the technology underlying this new asset class has the potential to fundamentally change the way we live. Here's why.

1. Blockchain technology is truly innovative, enabling a range of activities that weren't possible before. A blockchain is a database of blocks of data permanently linked (chained) together via cryptography. A blockchain makes it possible for computers in different locations to access and share their data – and in the process, overcome one of the biggest computer software challenges of all time: how to quickly and reliably share information amongst separate, unaffiliated entities without the involvement of a centralized gatekeeper.

Bitcoin was the first successful blockchain. Thanks to its success, there are now thousands more digital coins and tokens; some will survive, most will not.

Beyond bitcoin, blockchain is the foundation for Dapps (decentralized applications), platforms and protocols. These make it easy to send and receive money across borders, clear and settle financial transactions, manage supply chains, enable device-to-device transactions in the Internet of Things, create more reliable property and asset registries, and improve record-sharing in health care. The benefits – greater speed, transparency, lower cost and ease of access – offer tremendous opportunities for speeding global commerce and improving the lives of everyone on the planet.

2. Bitcoin uses large amounts of energy – but not all blockchain-based apps do. Some skeptics cite bitcoin's high energy costs. It's a legitimate concern, but thousands of crypto-networks, applications and protocols made possible by the blockchain are carbon neutral. And the Bitcoin network is improving its efforts in that regard.

Here's what you need to understand: Crypto apps built on a blockchain, like Bitcoin and Ethereum, require a “consensus mechanism” to settle transactions and secure the network.

Bitcoin uses a proof-of-work (PoW) consensus mechanism, which requires the use of powerful computers (aka bitcoin miners) running non-stop. But PoW is only one consensus mechanism. Another is proof-of-stake (PoS) – and it is not energy-intensive. Instead, it's based on users staking their crypto assets (and risking losing them), to secure transactions on the blockchain. For example, the popular blockchain Ethereum is transitioning to PoS. Once Eth 2.0 is fully in production, Ethereum will be the second biggest blockchain and it will be running on PoS. Thus, one of the biggest downsides to crypto is being addressed and will soon be resolved.

3. DeFi will make money accessible in new ways for everyone. One of the first successful uses of blockchain technology is decentralized finance, known as DeFi. This is already big, and it's still growing – because DeFi makes it possible for anyone with a smart phone to put money into a savings account, apply for a loan, and make or receive a digital payment. This is revolutionary, especially in countries where it's almost impossible for average people to obtain a bank account, credit or loans. Sixty-nine percent of people living in Vietnam, for example, do not have access to a bank account.

And just imagine the advantage of obtaining a cryptocurrency account in a country like Zimbabwe, where inflation was 622 percent in 2020. In Venezuela, inflation is so severe that artisans are selling handbags made from local currency – the bolivar. A handbag woven from 1,000 individual bills totaling 100,000 bolivares sells for US\$13. (The cash value of 100,000 bolivars is 17 cents.) More than 20,000 retailers now accept cryptocurrency in Venezuela.

And what about people who do have bank accounts, mortgages, and stock portfolios? Crypto is opening up new possibilities for us, too. Compound, for example, is an app based on the Ethereum blockchain that allows digital asset holders to borrow and lend crypto against collateral. Let's say you bought \$1,000 worth of Ethereum's currency, ether. You could add it to Compound's liquidity pool and immediately start earning compounding interest. No application required – not even a phone call. Just download the app. Compound has already amassed more than \$6 billion in its liquidity pools.

It's too soon to know how crypto technology will evolve, and how our society will be shaped by these changes. Crypto is still in its adolescence – with all the volatility associated with experimentation. Expect dramatic ups and downs, but don't let such price fluctuations scare you; they simply reflect the newness of the technology.

Indeed, volatility is not a flaw. Quite the opposite: It proves that the technology and the insights driving it are rock solid.

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