

Investing Through Inflation

What is Bitcoin?

- a) Store of Value
- b) Currency
- c) Digital Gold
- d) All or None of the Above

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What Is Bitcoin? a) Store of Value, b) Currency, c) Digital Gold, d) All or None of the Above

Summary: The fact that we can't say with certainty what exactly Bitcoin is, is interesting. The following paper examines some options and comes to a conclusion – for now.

What is Bitcoin (BTC)? At the time of writing BTC was trading at \$37,700. Three months prior it was \$59,000. Six months back it was \$29,000. Store of value? Currency? Digital gold? How can these be open and valid questions yet someone is willing to use \$37,000 of their US dollars to buy – what? And why?

a) Store of Value: One shouldn't need to rely on Justice Stewart Potter's pornography definition "*I know it when I see it*" to determine if something is a store of value. If it's worth today what it was worth yesterday, if it's worth yesterday what it was worth last week, then it's a store of value. How much variance am I willing to allow before I have to invoke Justice Potter's wisdom? Plus, or minus 5% in a day, a week, a month a year? *Will I know a store of value when I see it?*

Equities are a core position in a classic portfolio allocation. Why? Because equities provide growth. Not safety. Growth. Risk, as measured by volatility, is accepted as a trade-off for the growth potential. Equity risk is roughly plugged into models at 15% annualized. That is, 15% is one standard deviation of acceptable returns.

BTC currently trades with a volatility of 70%. It's a moving target but let's acknowledge that BTC is currently leagues more volatile than equities. I rhetorically ask, if nobody sees equities as a store of value and they trade at 15% risk, how can an asset trading at 70% risk be a store of value?

When advocates suggest BTC is a store of value I believe what they're saying is it will become a store of value. I might agree with that but semantics are important. What that translates to is that the current price of BTC is an option on BTC becoming a store of value. It categorically is not currently a store of value. Whether \$37,700 is a fair value for the option is a separate question.

b) Currency: A search on the definition of currency will bring up a number of criteria. I'll focus on only two; 1) a store of value – the ability

to save it and use it later, and 2) supply is controlled or limited, i.e., certainty it can't be debased.

Those who advocate that BTC is a currency are convinced both are true. My point of view cannot abide the store of value test, as previously noted. Regarding the second criteria I have trouble accepting supply is controlled or limited. There's an act of faith that BTC advocates have accepted that I have trouble with. Their holy grail is that the amount of BTC that can be minted is known and fixed. To me, the open-source nature of the intellectual property convinces me that BTC is the first but not necessarily the last. They'll counter that it has first mover market advantage. I concede to that point and parry that is not an immutable advantage. We agree to disagree.

c) Digital Gold: Let's simplify this leg of the debate. Gold is a tangible. Irrefutable. BTC is an intangible. Irrefutable. Ergo claiming BTC is digital gold is saying BTC is an intangible tangible. I'm tempted to cheekily ask if you enjoyed your jumbo shrimp while I flip through the dictionary searching for the definition of oxymoron. I resist because cheeky doesn't play. Gold advocates are drawn to gold specifically because of its physical properties. Looking through the BTC lens bitcoiners would claim that tangibility is a quaint notion from a bygone time. That the world is digital and gold is an analog reference. I absolutely want to agree but can't get past what I outlined above re. the unlimited supply potential that arises from open-source intellectual property. Again, we agree to disagree.

d) All or None of the Above?

Where do I end up on all this? I want to agree it's a currency. I want to agree it's digital gold. I can't agree on either because I can't agree it's a store value. It may become a store of value. *Will I know it when I see it?* It's a risk. It's not the first risk of this nature I've faced in my career. (Will ESG change the markets? Will high frequency trading corrupt the markets? Was Alan Greenspan a maestro? Will Facebook and Twitter change how we socialize?) It's a risk that can be managed. Stay open minded. Challenge your base principles. Stay current. Do R&D. Be willing to lose money to learn. I'm not buying the option that BTC will be a store of value. But I reserve the option to change.

Phil Schmitt
President & CEO
Summerwood Capital Corp.

Contact me at;
info@summerwoodgroup.com
[LinkedIn](#)

