

Bitcoin: The New Generation or the Next Digital Flop?

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A startup currency? What is a startup currency? How often do we see a whole new form of currency not created by a single organization or government? Truly Bitcoin has captured the imagination of many speculators, investors and onlookers. If you haven't heard of Bitcoin yet, you surely will more often in the future as your favorite retailers may start taking this as a form of payment for goods and services. So let's peel back this financial onion and learn about what this whole new currency craze is all about.

Bitcoin is a digital dollar. This currency is not controlled by a centralized force as the security and freedom of this currency are its hallmarks of its success thus far. Essentially, the early adopters of Bitcoin believe that millions worldwide will convert their US Dollars, Euros, Aussie Dollars, Swiss Francs or any other foreign dollar into Bitcoin. As of this minute, 1 Bitcoin equals \$1,013.20 US Dollars as of December 5, 2013 at 9:47AM (www.bitcoincharts.com). Why so specific? Well, this currency is extremely volatile. For example, on November 1st 2013 the currency traded as low as \$100 US Dollar for every one Bitcoin, i.e. one tenth the price it is today! The month before in October the US Dollar to Bitcoin trade was in the \$400 to \$500 range. These prices are exceptionally volatile which leads to part of its hype and speculation and newsworthiness.

Since speculation remains one of the main drivers behind the price of Bitcoin, with every rumor of Chinese citizens converting their currency to Bitcoin causes the exchange prices to rise. Last month, billionaire Richard Branson made history by allowing people to buy plane tickets in Bitcoin on Virgin Atlantic. As more vendors adopt this form of payment as viable legal tender, look for speculators to jump in and out of the currency making the price bounce all over the place.

Let's address some of the several potential problems of Bitcoin:

- Since Bitcoin is not an official currency, paying income tax, sales tax, payroll taxes and capital gains taxes are something Bitcoin is not set up to do. Governments do not like losing the ability to collect and track tax payments.
- Bitcoin is not backed by anything. Bitcoin believers would suggest that this is not materially different than the US Dollar which is backed by our government's "full faith and credit." But there is a sharp difference between a government backing and a fledgling currency with no support whatsoever.

- Bitcoin is an experiment at this time. The problem with any investment in this stage is the inherent volatility of the price (see above) and who knows if this will reach enough saturation in the marketplace to be accepted worldwide.
- You didn't think you could print the digital currency and carry the bills around in your purse or wallet, did you? A web wallet is required to hold your currency which leads to possible threat of hackers and those looking to electronically snatch your currency. Simply put, a vendor would take a picture of your smart phone's "QR Code" which would debit your Bitcoin account and pay the vendor for the goods/services received. New apps will come out for smart phones to make this process potentially as easy as a credit card one day.
- Hackers worked their way into the network of a European payment processor of Bitcoin in a report from the Washington Post on November 26, 2013. The digital wallet service lost over \$1,000,000 of Bitcoin to this group of hackers. This likely won't be the last story we hear like this. Who knows, maybe one day the formula for Bitcoin will be discovered allowing people to create their own digital currency which undermines that whole system?

So why does anyone care about Bitcoin? Why invest in it? What are the possibilities over the long term? All likely questions, let's go over some thoughts:

- Global Accessibility means that if another vendor or provider across the world accepts Bitcoin as a viable payment – a consumer can dig into their digital wallet to buy goods/services all over the world without exchanging currency. This could potentially help increase global accessibility for companies everywhere.
- Without a middleman, Bitcoin boasts lower transaction fees than traditional currencies.
- Born from technology, the possibilities with pricing goods/services in Bitcoin include the possibility for vendors to price their services in minutes and seconds due to the currencies flexibility. Additionally, as a part of the technology, Bitcoin offers a proposed ease with digital contracts and irreversible transactions. Those two enhancements are proposed to offer added trust to a banking system that can often test financial intermediaries' integrity.
- The identity of those performing the transactions is private. Yet there is flexibility within the Bitcoin transparency allowing businesses to show or not show who is purchasing which products to a particular group of people within the organization.

So what to do? Surely there are ample risks with this new financial opportunity for businesses, consumers and investors alike. With one swoop governments can look to shut down this currency and make processing business using Bitcoin an impossibility. Before investing in anything like Bitcoin, be sure to contact your financial advisor to learn more about this opportunity, possible risks associated with using this currency and the potential long-term implications both good and bad.

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