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Cryptocurrencies – Back to the future

Is there a bubble?

Throughout history there have been numerous examples of market bubbles, including the already well referenced 'Tulip Mania' of the 1600s where people were eventually even selling their homes in order to get on board one of the first 'get-rich-quick' schemes, and which predictably ended abruptly in 1637 when the price for Tulip bulbs collapsed. The next major investment opportunity to expand and pop was Britain's 'South Sea Company' stock craze following the firm's success in being granted a monopoly to trade with South America. Sadly it was also probably the first classic example of creative accounting, misleading advertising and insider-trading. In January 1720 its share price had already hit £128 despite not having yet declared any profits, and by August it reached £1050, with the paper reportedly even being sold onto eager but naive investors in London's many coffee-houses by 'stock-jobbers.' The very next month a series of events, including a parliamentary investigation into 'bubble' firms, saw confidence in the South Sea Company begin to evaporate and its share price lost almost 90% of its value triggering a wave of bankruptcies.

More recently the 'dot-com' bubble of the late 1990's, which was created by the commercialization of the internet, the development of new technologies, and the availability of cheap money (sound familiar?), saw the NASDQ index rise steadily from 694.00 in June 1994 to 5048.00 in March 2000 before collapsing to 1424.00 by September 2001.

Now the next 'big-thing' appears to be digital currencies with 'Bitcoin' in particular initially grabbing all the headlines, especially after its incredible jump in value these past 12 months when it rose from just US$775 in January last year to almost touch US$20,000 in December. Since then it has whipsawed wildly but at the time of writing was still trading around US$15,000 per coin. To put this into perspective that gives this commodity, with no real underlying value, a market cap of over US$250 bio. Worryingly too is the leverage used by many small investors in their rush to board this boom train and highlighted in a recent survey undertaken by LendEDU (a US based personal finance site) which suggested that around 20% of Bitcoin owners were still making credit-card payments for their purchase, and over 75% had said they would use their cards to buy more in the near future. Meanwhile a separate study by *Blockchain Capital* revealed that 30% of millennials would prefer to invest in Bitcoin rather than conventional bonds and stocks. So could this be just the latest example of yet another bubble? Well the complete answer is probably not that straight-forward, and while we would probably not be rushing into Bitcoin itself right now, the development of the crypto market itself and more importantly the technology behind it, is an extremely interesting phenomenon that is likely to permanently change the way the financial sector operates.

Seeking a purpose

The creators and supporters of Bitcoin claim that its primary raison d'être is that it allows for more private and secure online transactions, the first of which reportedly took place in 2010 when a man traded 10,000 coins for two Papa John's pizzas. However that privacy (albeit not completely confidential) has also made it attractive to criminals with such coins allegedly having been used extensively on a darknet website called 'silk road,' an online marketplace for illegal goods and services that was eventually shutdown by the FBI in 2013. Admittedly since then a number of legal entities and firms have begun to accept Bitcoin (and others) as a method of payment, and it's no longer a surprise to find luxurious real estate advertisements displaying their 'for-sale' price in both the local currency and Bitcoins. This rise in usage by both honest and dishonest individuals has forced Central Banks to pay more attention to the rapid rise of the cryptocurrency market and will probably eventually lead to some sort of global trading and reporting guidelines, although at the stage most governments are still struggling to formulate an official policy towards it.

Regulators and price volatility aside, perhaps the greatest threat to the future of Bitcoin comes from the appearance of competing cryptocurrencies which now apparently number over 1300, compared to just 6 a few years ago, with a new coin or token being created on an almost daily basis. Bitcoin's overall market share has already fallen to 34% according to the 'CoinMarketCap' website which monitors most of the world's active digital currencies, and as this technology swiftly evolves it appears that developers are now beginning to focus on trying to find a specific use for their creations. 'Stellar' for example is primarily designed for cross-border payments and 'Ripple' for interbank transactions. 'Ethereum' reportedly has the ability to utilize 'smart contracts' within its blockchain structure which could help automate financial transactions while 'Poet' verifies the ownership of digitalized creative assets.

What is Blockchain?

Blockchain in simple terms refers to the distributed accounting ledger technology that underpins all cryptocurrencies, and is in essence a network of computers (called nodes) that all retain the same transaction records. Every users' set of records or ledger is called a 'block', while each block contains information about every previous block and then 'chains' them together. Software accurately verifies each transaction automatically and this information is then secured using a unique set of numbers and letters called cryptography which can in turn only be accessed using a special key (or code) known only by the authorized user. It's this technology that is the actual 'future disruptor' not just for individuals and the financial industry, but also for example the way that supply chain management could eventually be conducted, which in turn will affect a wide range of sectors. It offers the potential for governments and businesses to store and track both transactions and documents securely, lower costs, reduce the level of human error and ultimately provide a faster and more efficient service to their citizens and/or customers.

UAE leads the pack

A small number of countries have already recognized the opportunities opened up by this new technology and the UAE is one of those at the forefront of its adoption. The government has unveiled a plan to become a 'paperless' economy and aims to eventually utilize blockchain across all of its public service facilities within the next few years. In fact Dubai's Land Department became the world's first government entity to adopt a blockchain system last year, an Emirates digital wallet has been set-up in conjunction with a number of UAE banks, whilst Abu Dhabi Global Markets established a regulatory laboratory (or sandbox) for 'Fintech' innovation back in 2016. On top of this the Central Banks of the UAE and Saudi Arabia announced just last month that they are collaborating on the introduction of a cryptocurrency which will be used specifically for cross-border transactions between the two countries. Meanwhile the UAE's private sector is also beginning to actively embrace this platform, with remittance houses in particular looking to include digital currency payments in their client offerings. The CEO of the country's oldest exchange house, UAE Exchange, was quoted last year as saying; “We are in the process of tying up a deal with distributed ledge start-up Ripple, for real-time cross boarder payments.”

Conclusion

As experienced during the dot-com era, it’s likely that some current household names within the ‘crypto’ currency world will not be around in the years to come, (anyone remember eXcite or TheGlobe.com?). However as outlined above the technology driving this latest digital revolution is here to stay and will vastly transform the way we do business in the very near future. As Marty McFly said way back in 1985 “*Yeah well, history is gonna change…*”

Top 10 Cryptocurrencies By Market Cap

Currency	Market Cap (US$ Bio)	Price (US$)	Price rise in % (Jan 17 - Jan 18)
Bitcoin (BTC)	*248.56*	*15338*	*+1492%*
Ethereum (ETH)	*117.42*	*1239*	*+14900%*
Ripple (XRP)	*94.01*	*2.43*	*+40400%*
*Bitcoin Cash (BCH)***	*40.49*	*2438*	*+380%*
*Cardano (ADA)***	*23.05*	*0.89*	*+4138%*
NEM (XEM)	*15.04*	*1.67*	*+5467%*
Litecoin (LTC)	*13.92*	*254.51*	*+5725%*
Stellar (XLM)	*11.52*	*0.64*	*+3100%*
*MIOTA (IOTA)***	*10.39*	*3.74*	*+485%*
*TRON (TRX)***	*10.11*	*0.15*	*+7400%*

*** Launched after Jan 2017* *Source: coinmarketcap.com*

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