

# Cryptocurrency

## What to Know as a Long-Term Investor

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# Introduction

# Allodium Speakers

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# Today we'll discuss...

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What is Bitcoin?

What is cryptocurrency?

What is blockchain?

Why should we care?

What should we do?



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# Long-Term Investment Success

*Cryptocurrency • What to Know as a Long-Term Investor • January 25, 2022*

# Long-Term Investment Success

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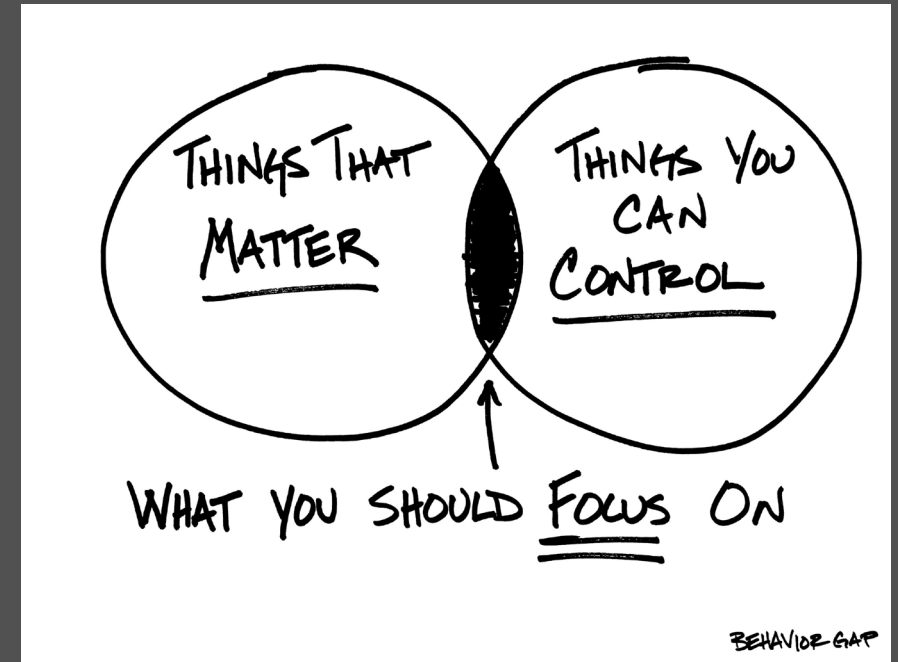
Our goal for our clients is long-term investment success and we'll keep that thought in mind as we discuss cryptocurrencies.

# Long-Term Investment Success

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What do we mean by a “long-term investor”?

- Investing towards goals (retirement, education, etc.)
- Diversification / reducing unnecessary risks
- Evidence-based
- Focus on what you can control (vs. FOMO)





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# Origin of Cryptocurrency

# Origin of Cryptocurrency

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Source: Elekes Andor, [Satoshi Nakamoto](https://commons.wikimedia.org/wiki/File:Satoshi_Nakamoto.jpg),  
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## Who is Satoshi Nakamoto?<sup>3</sup>

- Bitcoin was created by an individual(s) using the pseudonym Satoshi Nakamoto in 2009.
- Was claimed to be a man in his 30s living in Japan — it is a mystery.
- Bitcoin source code was released 2009. This created the first cryptocurrency and blockchain technology.

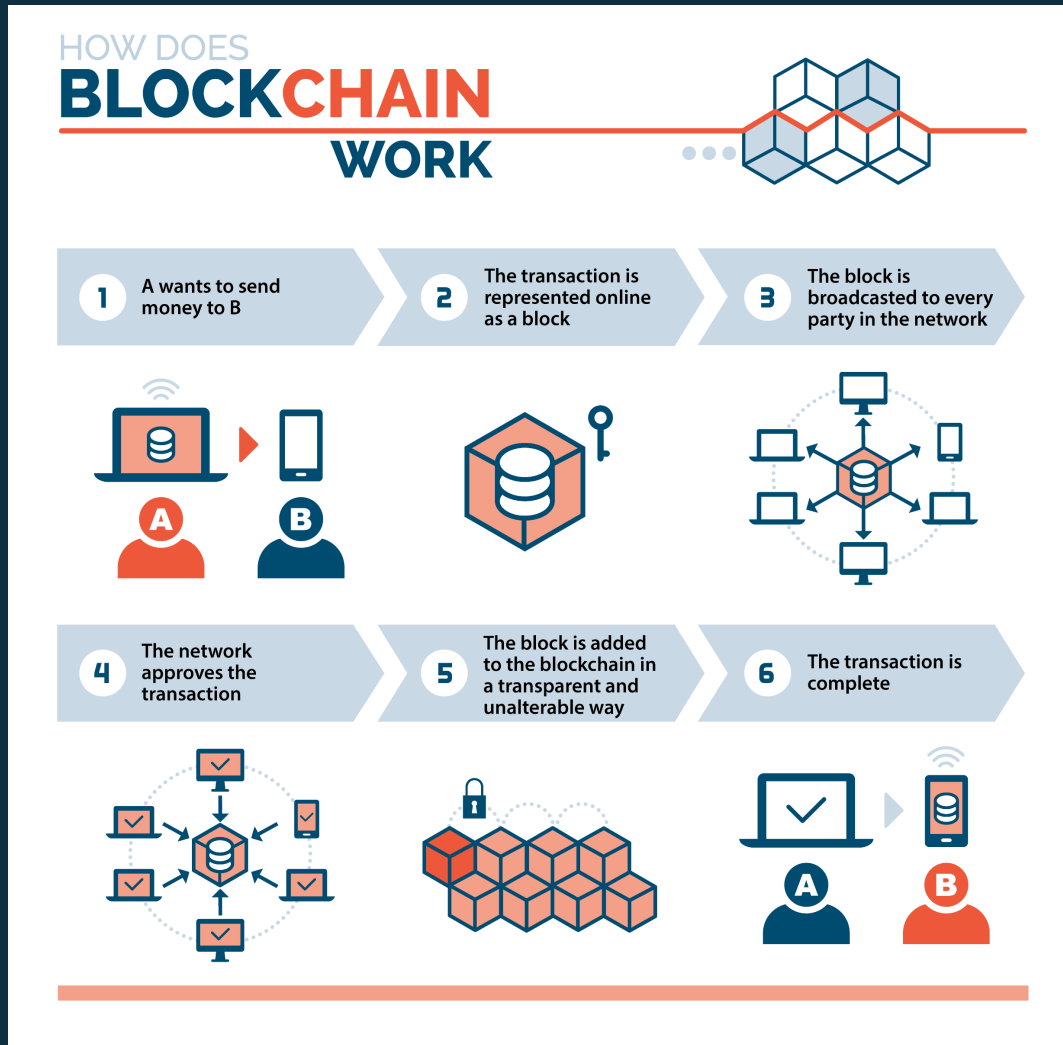
# Origin of Cryptocurrency

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- Invention of Bitcoin and blockchain technology
- Challenges
  1. Digital money not duplicated or spent more than once.
  2. Not reliant on one individual, company, or government.
  3. How to incentivize for maintaining the ledger?<sup>4</sup>



# Origin of Cryptocurrency



- Shared ledger to track every transaction.
- “Trustless” system vs. trust-based model of traditional banking.

# Origin of Cryptocurrency



Source: Chris Huisman, File: Hut 8 Medicine Hat box 1.  
[https://en.wikipedia.org/wiki/File:Hut\\_8\\_Medicine\\_Hat\\_box\\_1.jpg](https://en.wikipedia.org/wiki/File:Hut_8_Medicine_Hat_box_1.jpg), [Creative Commons Attribution-Share Alike 4.0](https://creativecommons.org/licenses/by-sa/4.0/)

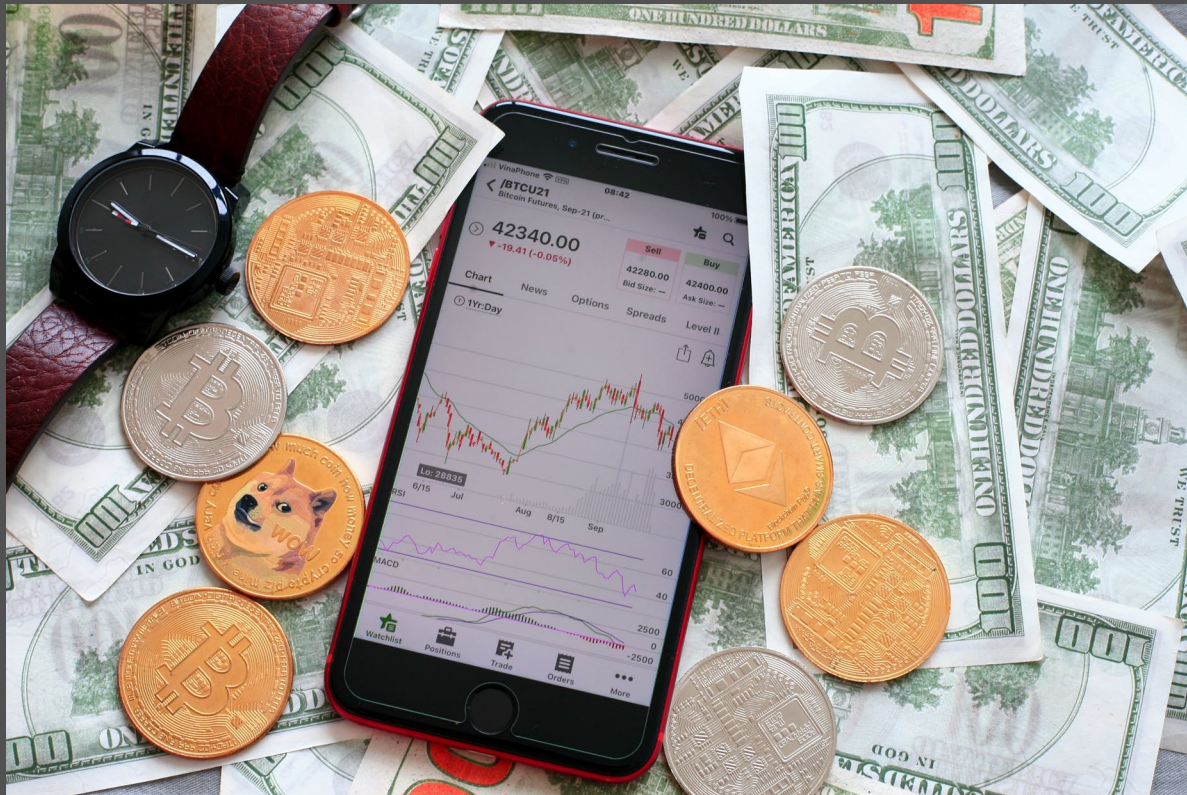
- Bitcoins are created through “mining.” Mining: Nodes solve problems and are rewarded with Bitcoin.
- The total number of Bitcoins that will be created is limited to 21 million.<sup>5</sup>
- The number of Bitcoins a node gets when it solves a problem decreases by half every four years, until all Bitcoins are distributed in 2140 according to a predetermined schedule.
- In 2009, the reward for each block mined was 50 Bitcoins. Now it is 6.25.<sup>6</sup>
- $1/18/22$  value of 6.25 Bitcoin = \$258,701.38.<sup>7</sup>

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# Logistics of Using Cryptocurrency

# Logistics of Using Cryptocurrency

## How to obtain and trade cryptocurrencies



- Purchase already mined Bitcoin on Cryptocurrency Exchanges.
- Beware of high fees.

# Logistics of Using Cryptocurrency

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## How to store and protect cryptocurrency

- Uses password comprised of 12 unique words (private keys).
- Digital wallets
  1. Exchange wallets
  2. Application wallets – on computer or smartphone
  3. Hardware wallets – private keys stay in the device and are not given out. Can be physically disconnected from internet.





# Logistics of Using Cryptocurrency

## Exposure to cryptocurrencies in brokerage accounts

- Can't own directly
- Investments with exposure
  1. Coin trusts
  2. Futures contracts
- Schwab donor-advised funds



# Logistics of Using Cryptocurrency

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First known transaction of making a purchase with Bitcoin on May 18th, 2010:

*“I'll pay 10,000 bitcoins for a couple of pizzas.. like maybe 2 large ones so I have some left over for the next day. I like having left over pizza to nibble on later...”*

*Thanks,  
Laszlo”*



Using Bitcoin's value on 1/18/2022, those pizzas are worth about \$414,000,000 today.

One Bitcoin = \$41,392.22 on 1/18/22  
<https://coinmarketcap.com/>

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# Cryptocurrency Landscape

*Cryptocurrency • What to Know as a Long-Term Investor • January 25, 2022*

# Cryptocurrency Landscape

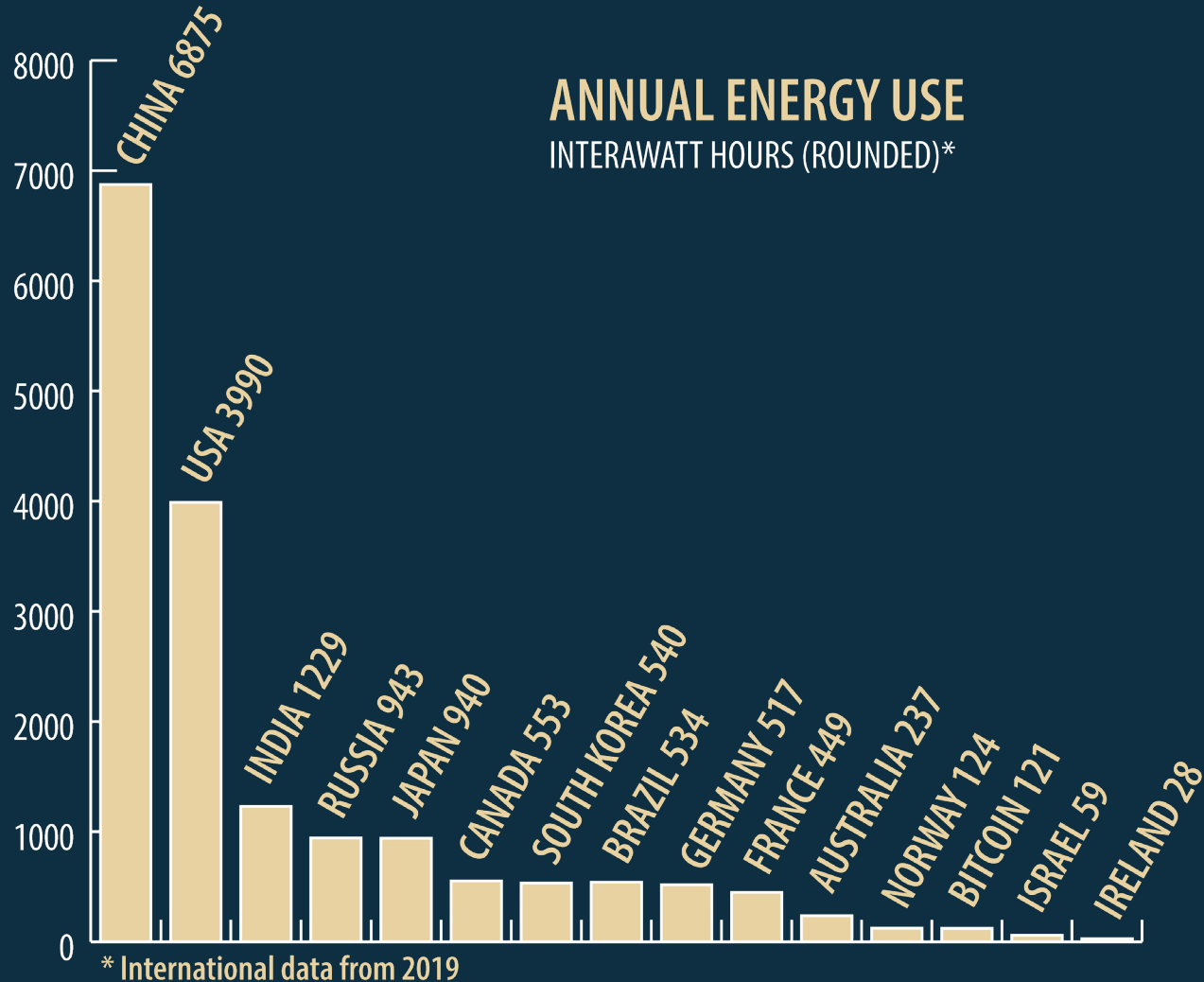
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## Bitcoin

- First and largest cryptocurrency
- Market cap of \$700 billion<sup>9</sup>
- Store of value
- “Proof of work” structure



# Cryptocurrency Landscape



A single Bitcoin transaction uses the same amount of power that the average American household consumes in a month!<sup>10</sup>

Data comprised from *Cambridge Bitcoin Electricity Consumption Index*<sup>11</sup> and *U.S. Energy Information Administration*.<sup>12</sup>

# Cryptocurrency Landscape

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Large variety of  
cryptocurrency options.

More than  
9,000 different  
cryptocurrencies exist,  
with new ones being  
created all the time.<sup>8</sup>



# Cryptocurrency Landscape

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## “Altcoins”

- Ethereum — market cap close to half of Bitcoin’s<sup>13</sup>
  1. Smart Contracts
- Cardano, Solana, Ripple, etc.
  1. “Proof of stake” = scalable, efficient
  2. Ethereum 2.0



# Cryptocurrency Landscape

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## “Memecoins”

- Speculation run wild!
- Dogecoin, Shiba Inu
- Squidgame coin<sup>14</sup>





# Cryptocurrency Landscape

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## “Stablecoins”

- “Trustless” financial system. People can store and transfer value without being subject to bank failure risk or cost of a middleman.
- Direct deposits of stimulus, tracing transactions, etc.
- Ability to monitor and change monetary supply much quicker.
- Government and corporate trials.



# Cryptocurrency Landscape

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## “Stablecoins”

- Corporations
  - Facebook’s “Diem”
- Governments
  - China’s Digital Yuan<sup>15</sup>



# Cryptocurrency Landscape

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*“Stablecoins can certainly be a useful, efficient consumer serving part of the financial system if they’re properly regulated. And right now, they aren’t.”<sup>16</sup>*

Federal Reserve Chairman  
Jerome Powell, 12/15/2021

# Cryptocurrency Landscape

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Source: Stefan Fusan, Federal Reserve, Washington D.C.  
[https://commons.wikimedia.org/wiki/File:Washington D.C.  
Federal Reserve 0001-0003 HDR.jpg](https://commons.wikimedia.org/wiki/File:Washington_D.C._Federal_Reserve_0001-0003_HDR.jpg) <https://creativecommons.org/licenses/by-sa/3.0/de/deed.en>

*“While a CBDC could provide a safe, digital payment option for households and businesses as the payments system continues to evolve and may result in faster payment options between countries, there may also be downsides.”<sup>17</sup>*

**Federal Reserve Report  
1/20/2022**

# Cryptocurrency Landscape



Deciphering the Alphabet Soup of other Blockchain Initiatives...

- DeFi
- NFT

# Cryptocurrency Landscape

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## What is “DeFi” (Decentralized Finance)<sup>18</sup>?

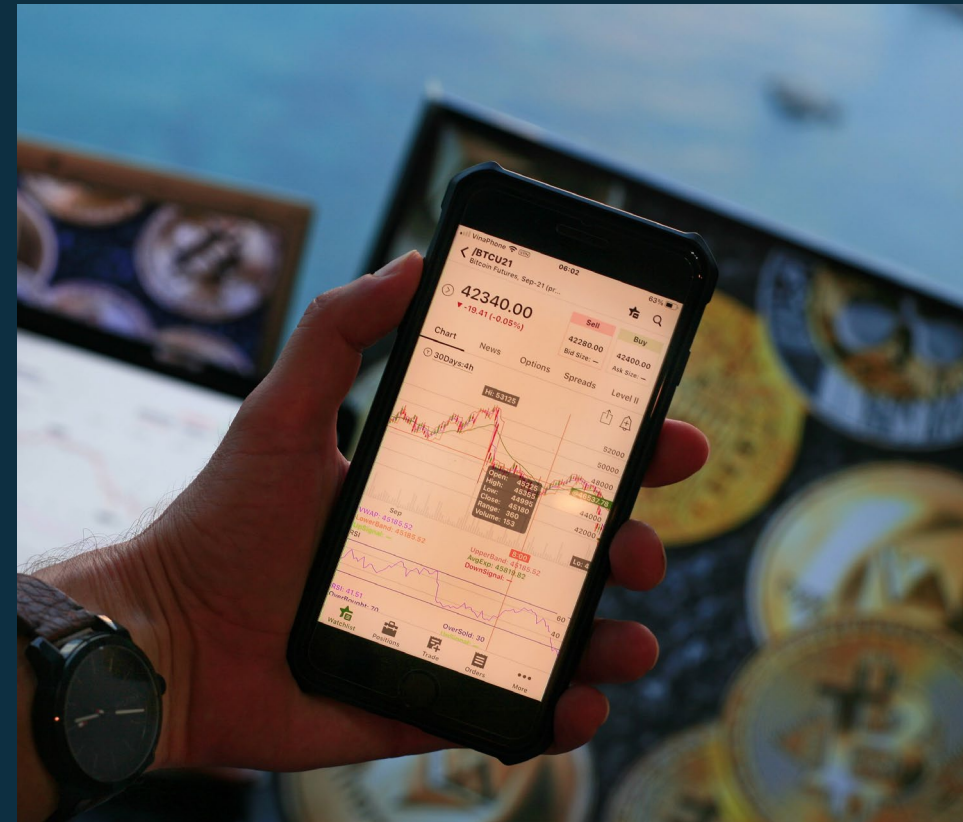
- Smart contract applications without the need for financial intermediaries like a bank.
  1. Efficient and fast (no paperwork!)
  2. Eliminates counterparty risk
  3. Equal opportunity



# Cryptocurrency Landscape

## DeFi Lending example

- Peer-to-peer lending without a bank middleman.
- Interest rates adjust automatically by code based on supply and demand.



# Cryptocurrency Landscape

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## What is an “NFT”?

- Non-Fungible Token
  1. “Non-Fungible” = unique, verifiable<sup>19</sup>
  2. Examples = art, real estate, property rights
  3. OpenSea Marketplace<sup>20-21</sup>





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# Cryptocurrency Risks and Challenges

# Cryptocurrency Risks and Challenges

## Price risk — most cryptocurrencies are volatile

- Potential for large losses in a short timeframe.
- Some exchanges allow for leverage which can greatly magnify this risk.
- 24-hour trading cycle.



# Cryptocurrency Risks and Challenges

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## Other risks

- Loss of password or security phrase = permanent loss.<sup>22</sup>
- Security breaches.<sup>23</sup>
- Large scale loss to theft/hackers.<sup>24</sup>
- Ripe for fraud and scams.<sup>25</sup>
- Other risks not yet identified.

# Cryptocurrency Risks and Challenges

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## Challenges

- Scalability challenges (high energy costs for Bitcoin usage).
- “Gas” fees and exchange fees.



# Cryptocurrency Risks and Challenges

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## More challenges

- Abuse by criminals
- Potential government intervention or regulation
- Tax reporting and enforcement
- Big brother vs. privacy



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# Final Thoughts from Allodium...

# Final Thoughts From Allodium

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## Investment vs. speculation<sup>26</sup>

- Odds favor long-term, evidence-based investing as a path to success.
- Investing in a single cryptocurrency, similar to investing in a single micro-cap stock.
- Speculation — may hit a home-run or may strike-out.
- Warren Buffett *“You don’t have to swing at every pitch.”*

# Final Thoughts From Allodium

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“Where would cryptocurrency fit in my portfolio?”

- In its current stage, likely a speculation rather than an investment.
- Go into it with your eyes wide open. Are your expectations realistic?





# Final Thoughts From Allodium

## Bucket strategy / 4th bucket

- Segregate it from your long-term diversified portfolio.
- Limit it to a small amount of your net worth where a total loss would not derail your financial plan (1-2% of your net worth, for example).

GROWTH

ILLIQUID & HIGHER  
RISK ASPIRATIONAL  
ASSETS

Current Amount:

\$ \_\_\_\_\_

\_\_\_\_\_ % of portfolio

ESTIMATED TIME IN YEARS	10 Years Plus
TYPICAL HOLDINGS	Private equity, highly concentrated stock positions, real estate, etc.
PURPOSE OF THE MONEY	Opportunity for significant growth
GOAL DESCRIPTION	Take speculative risks to grow my wealth
LIQUIDITY DESCRIPTION	Illiquid: "I do not need this money to fund future financial obligations."
TIME HORIZON	Long-term

# Final Thoughts From Allodium

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We are watching. There will continue to be advances in cryptocurrencies and DeFi.

There may potentially be more investable, lower risk investments in the future.



# Today we discussed...

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What is Bitcoin?

What is cryptocurrency?

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Why should we care?

What should we do?



# Q & A

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## Q & A

If you would like handouts about cryptocurrency, contact David Bromelkamp at [dbromelkamp@allodium.com](mailto:dbromelkamp@allodium.com)

# Thank You

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# Thank You!

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