

Twitter Thread by [Multipie](#)



Multipie

[@MultipieSocial](#)



Revolution, Digital Gold, Ponzi, Scam..

“Bitcoin” – almost everyone has an opinion on it! Bitcoin, along with other coins in Crypto Land, have seen a steep correction in last few days.

Let's use this fall to simplify and de-jargonize the complicated world of Bitcoin.

Thread ■



■■■■■■■■: Bitcoin was born in chaos, in the aftermath of 2008 financial crisis – banks collapsing, counter parties abetting on contracts and declining trust in Central banks. It was designed as a peer to peer decentralized monetary system devoid of intermediaries.

The domain <https://t.co/OBNEySDYwS> was registered in Aug 2008 and the Bitcoin paper (<https://t.co/AHlwajbGWw>) was published on Oct 31, 2008. This started the journey of Cryptocurrency.

Bookmark this visual comic form explanation of the whitepaper: <https://t.co/6gEHGVV8UM>

2/n

I've been working on a new electronic cash system that's fully peer-to-peer, with no trusted third party.

The paper is available at:
<http://www.bitcoin.org/bitcoin.pdf>

The main properties:

Double-spending is prevented with a peer-to-peer network.

No mint or other trusted parties.

Participants can be anonymous.

New coins are made from Hashcash style proof-of-work.

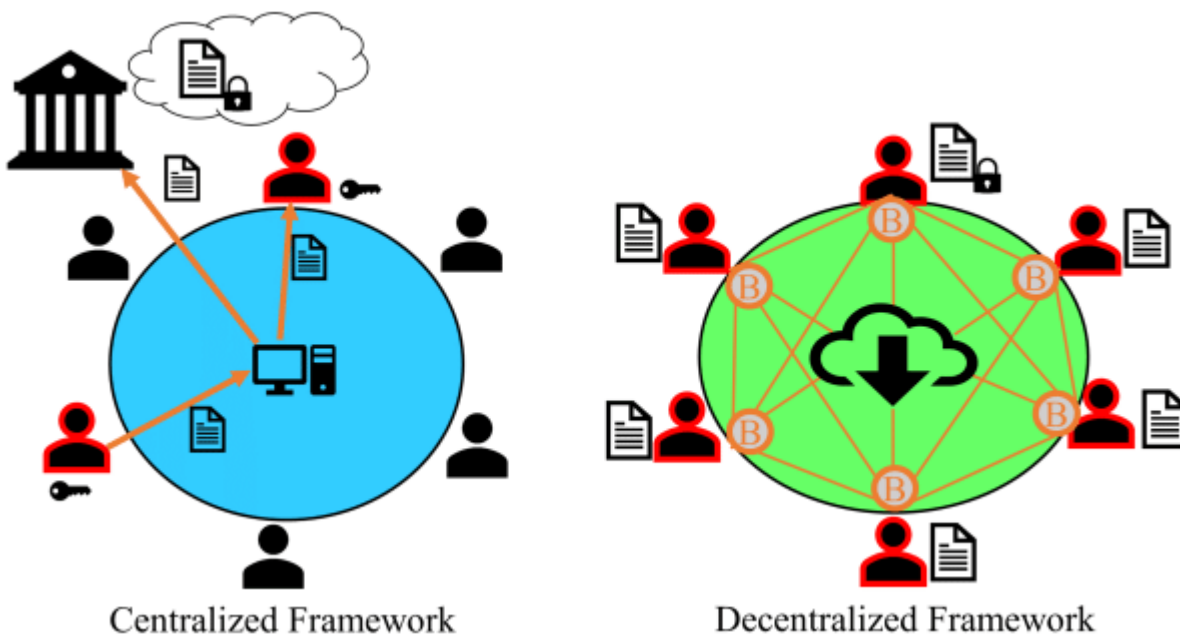
The proof-of-work for new coin generation also powers the network to prevent double-spending.

Source: Satoshi Nakamoto Institute

What is the debate on decentralization all about?

For both storing your money and for every transaction involving transfer of value, a financial intermediary or an administrator has been necessary before this. Such as Central Bank for Banking, SEC for securities, etc.

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This was until a guy called Satoshi Nakamoto decided - No more middlemen!

That isn't how Satoshi Nakamoto looks :)

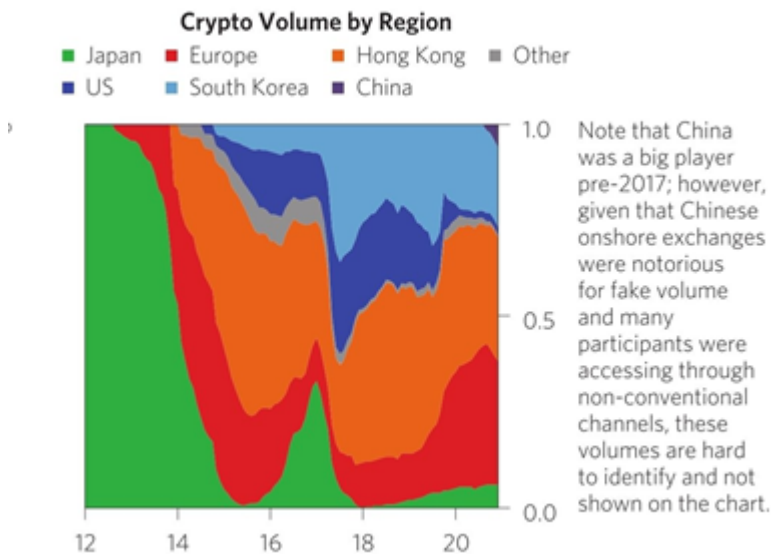
Nobody knows how he looks. Nobody knows if such a person even exists. In words, no one knows who owns Bitcoin. This has been fodder for conspiracy theories.

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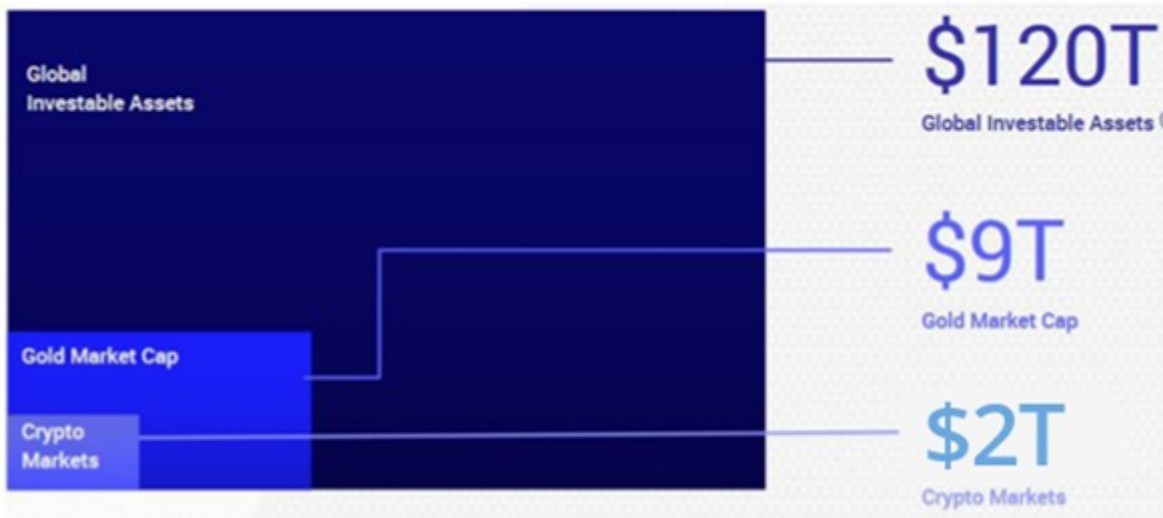
But what is fairly certain is that the origin of Bitcoin (and Cryptocurrency) can be attributed to ■■■■■■, purely by looking at the history of crypto volumes. Also the pseudonym adds up here. The Japanese were the first to start mining and using Bitcoin on the Darknet.

5/n



Cut to today - a lot of water has flown under bridge.

Before today's carnage, the total market capitalization of Crypto stood at ~\$ 2 Trillion, with Bitcoin contributing c. half of it, although its weight in overall Crypto has been declining.



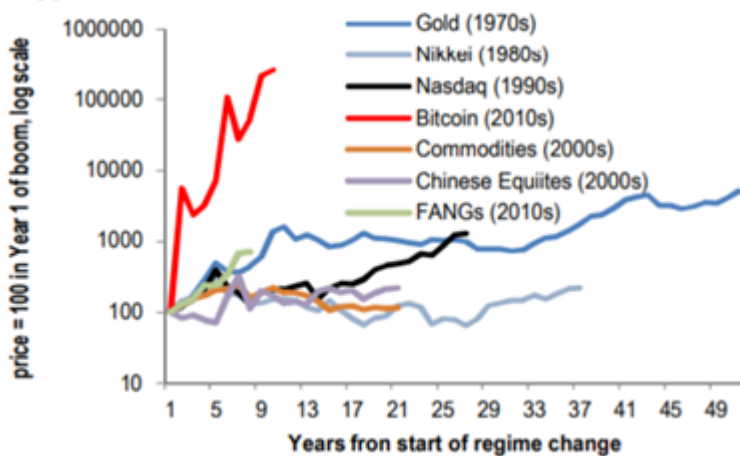
Bitcoin is too big to ignore now.

As Dalio puts it - "Bitcoin is one hell of an invention. To have invented a new type of money via a system programmed into a computer & being able to scale like that in 10 years!"

This chart via JPM shows the ascent of BTC. Fascinating.

Figure 1: The hype cycle – Bitcoin ascent has been steeper than any other financial innovation or asset bubble of the past 50 years

Asset values indexed to 100 in Year 1 of regime change, chosen approximately as 1970 for gold, 1985 for Nikkei, 1995 for Nasdaq, 2001 for Chinese Equities & Commodities, 2012 for Bitcoin and 2014 for FANGs.



To understand the success of Bitcoin, we first need to understand what is money?

As per traditional finance, money has 3 purposes. It serves as:

👉 A medium of exchange

👉■A store of value

👉■A unit of account

The utility of BTC & Cryptos has been debated on all 2 parameters.

8/n

Properties of Money

First, money should be **divisible**. It must have the capacity to be subdivided into small amounts so that scale isn't a problem. One must have the ability to use money to pay for both oranges and houses.

Second, money should be **portable**, or able to be easily transported from one place to another. That is, money should solve the problem of location.

Third, money should be **durable**, or be resistant to physical degradation over time. This is why, in the above example, oranges would not serve as an ideal money

Fourth, money should be **recognizable**, or easy to verify its authenticity. It should not be something that can be easily faked.

Finally, money should be **scarce**, so that its supply is resistant to manipulation over time. Money should hold its value and be able to pay for goods not just now but also into the future. Scarcity may be the most important property of money, as it provides a check on counterfeiting, supply manipulation, and theft.

	Bitcoin	Gold	Fiat
Durable	B	A+	C
Portable	A+	D	B
Fungible	B	A	B
Verifiable	A+	B	B
Divisible	A+	C	B
Scarce	A+	A	F
Established History	D	A+	C
Censorship Resistant	A	C	D

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While the many critics of Bitcoin have challenged the idea that it can never serve as money, experts now agree on its utility as a store of value. The current debate is around medium of exchange due to the volatility.

To its many critics, Bitcoin has always asked back:



10/n

Where are we today?

To quote Twitter: "Bitcoin is inevitable":

- Increasing use cases, leading to DeFi
- A strong cult (seen the laser eyes?)
- Early institutional adoption (Mastercard, Visa, PayPal, Tesla, Blackrock etc)
- Stronger payment ecosystem

But there is a catch:

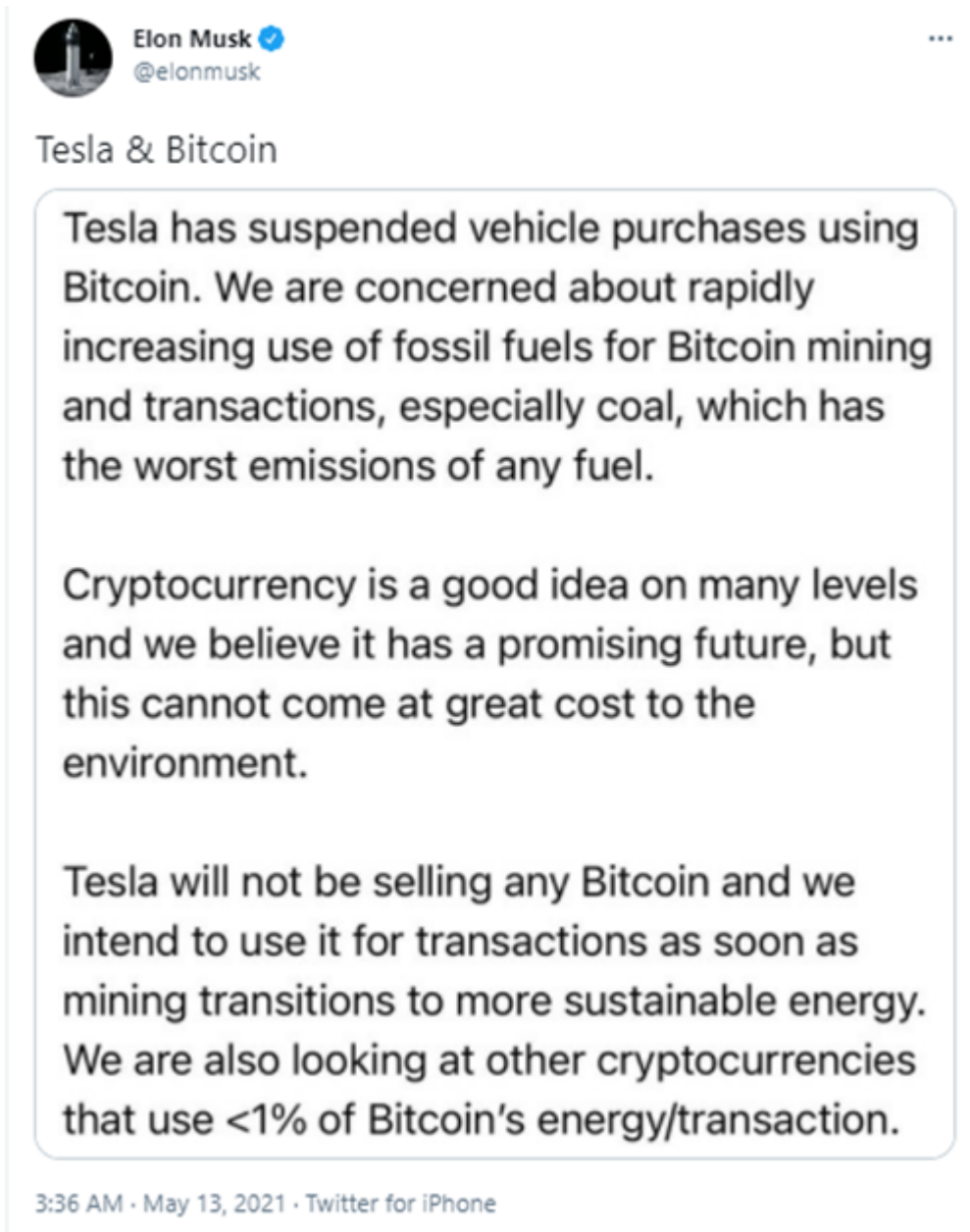


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Of the many debated aspects, the one that is proving to be Bitcoin (and Crypto's) nemesis is energy inefficiency.

"Bitcoin consumes more electricity than Argentina". This headline caught the world's fancy in Feb '21 & it's been a topsy

turvy terrain since, leading to this:



12/n

As we speak, BTC is down from its peak of ~\$64,870 to \$40,010 (recovered from intra day low of \$30,202). But if one zooms out, it's still a phenomenal rally.

And this not the first correction.

It fell from its peak of \$19K in Dec'17 to ~\$10K in Feb '18, to ~\$3K early 2019.

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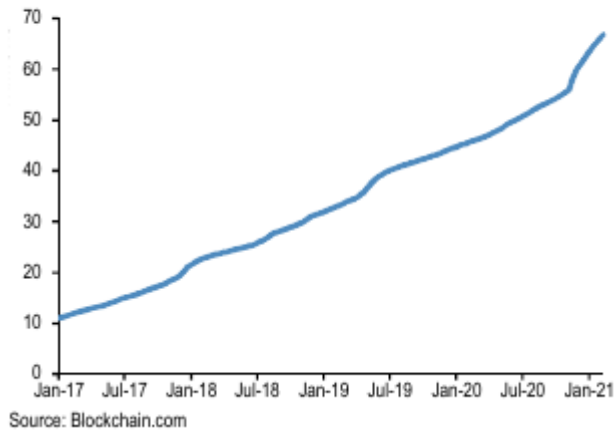
Let's discuss some lesser talked aspects:

A. Increased retail participation:

Rapid growth in new a/c openings on crypto exchanges. Chart shows unique crypto wallet accounts on <https://t.co/5jhnEfoATp>. Sharp upticks during FOMO rallies in end 17, mid-2019 & since Nov '20.

Figure 10: Unique wallet accounts on blockchain.com

of accounts in mn.

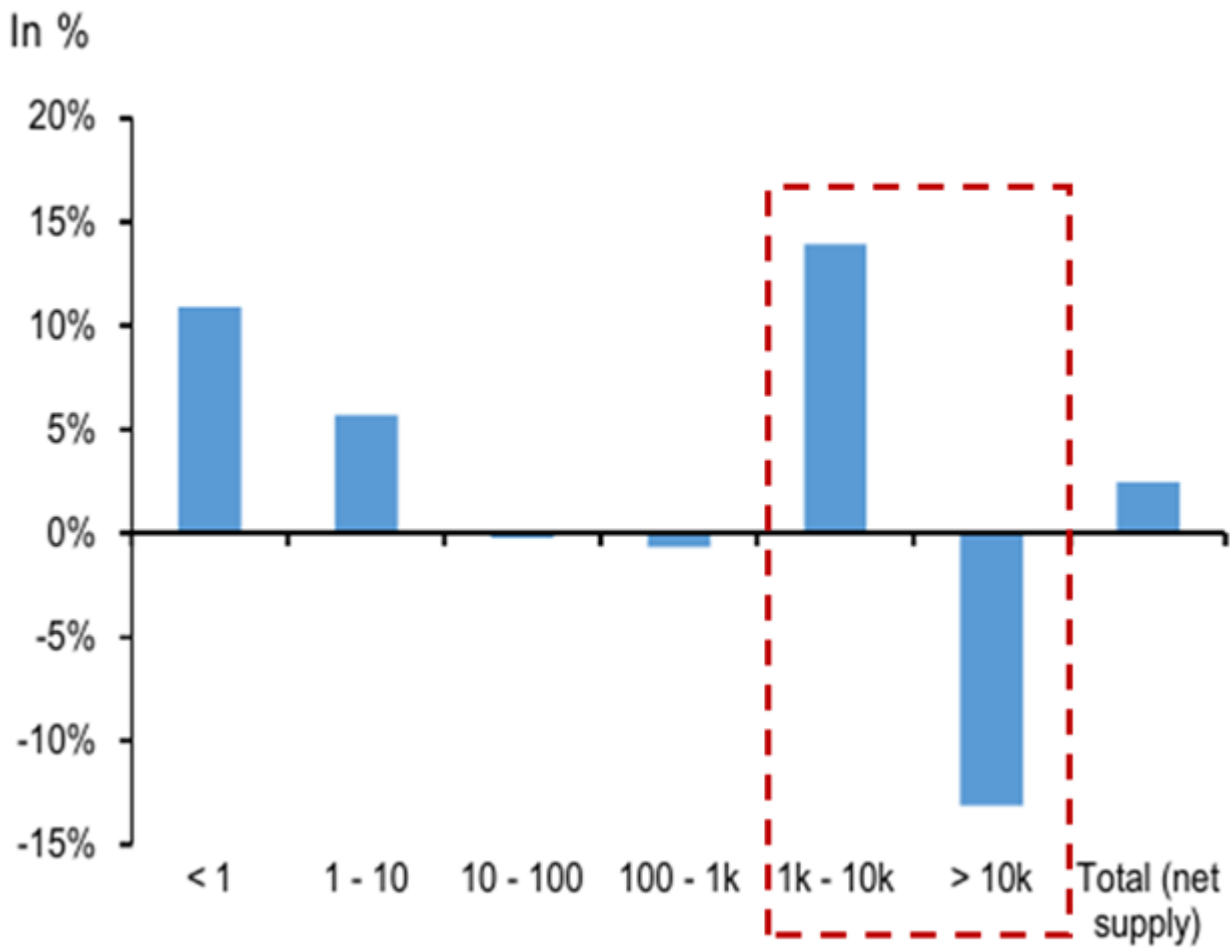


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B. Increase in balances held in accounts between 1,000 and 10,000 BTCs, likely to be institutionally driven.

Interestingly, balances held in accounts with more than 10,000 BTCs have declined significantly, suggesting potential cashing out by early investors and miners.

Figure 11: % increase in Bitcoin held in wallet accounts by bucket of wallet balance



Source: Bitinfocharts.com, J.P. Morgan

15/n

C. Debate on volatility:

Despite the raging debate, data shows that Bitcoin's volatility has not trended lower over the past several years. It remains about 4 times more volatile than Equities or Gold.

This has been a big impediment in its utility as a medium of exchange.

Nassim Nicholas Taleb @ · Feb 12 ...
 I've been getting rid of my BTC. Why? A currency is never supposed to be more volatile than what you buy & sell with it. You can't price goods in BTC

In that respect, it's a failure (at least for now). It was taken over by Covid denying sociopaths w/the sophistication of amoebas

3.7K 3.9K 14.8K

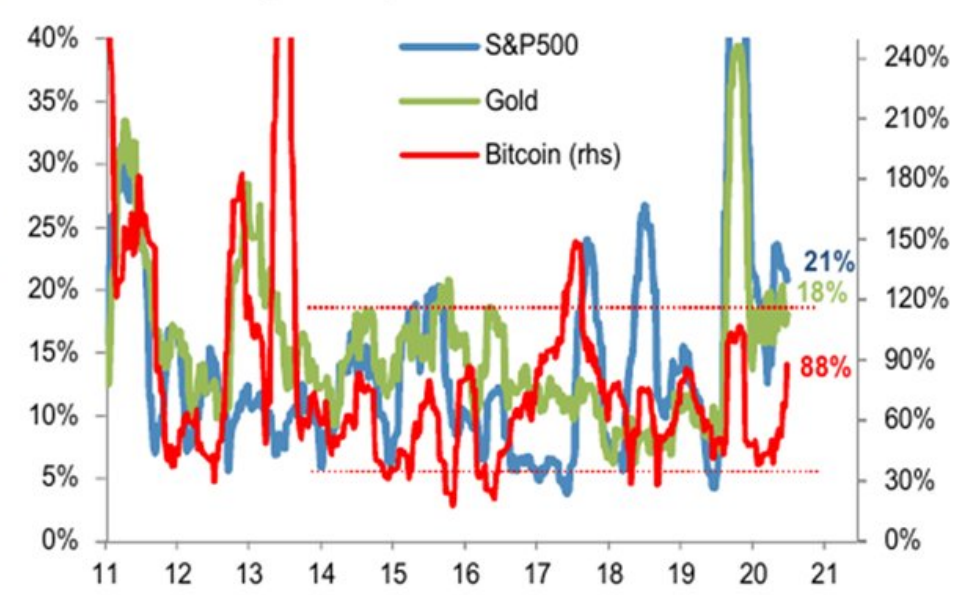
Yassine Elmandjra @yassineARK
 Replying to @nntaleb
 You should read Antifragile. Great book.

"There is no long-term stability without short-term volatility." - @nntaleb

11:21 PM · Feb 12, 2021 · Twitter for iPhone

952 Retweets 261 Quote Tweets 10.7K Likes

3M realized volatility on BTC, S&P500 and Gold

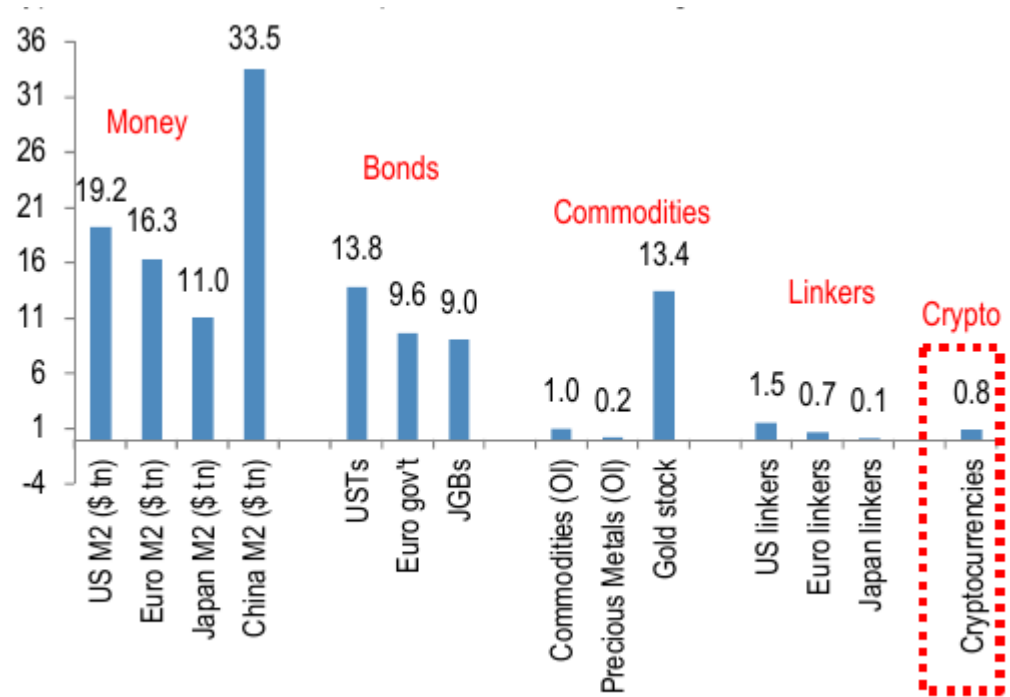


Source: J.P. Morgan, Bloomberg Finance L.P.

16/n

D. Constraints on liquidity

Lack of legal tender status will constrain cryptocurrency liquidity compared to traditional portfolio hedges such as Commodities (Gold), Currency, Bonds or real estate.



Source: J.P. Morgan, Bloomberg Finance L.P.

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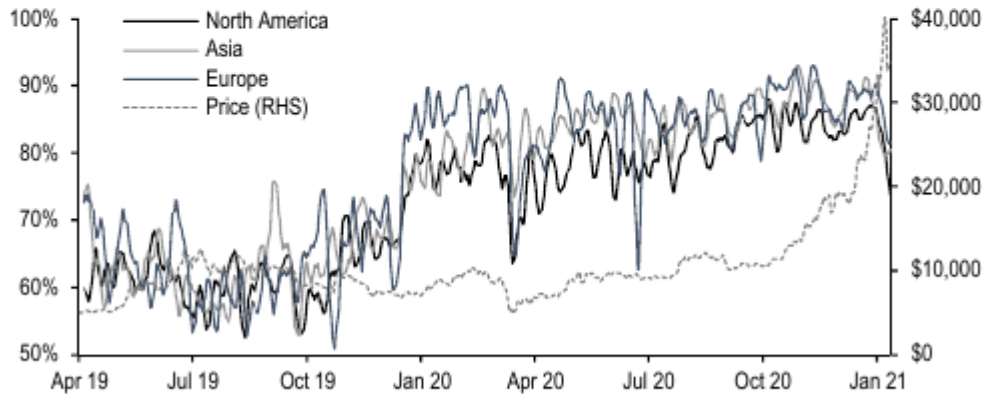
JPM observes that a "large majority of this liquidity provision comes from high frequency-style traders who often end up

fleeing when volatility picks up."

This explains the steep swings (such as now) and are tail risks that should be understood by more crypto enthusiasts.

Figure 3: As with other asset classes, high-frequency traders have grown to dominate the provision of liquidity on Bitcoin exchanges, including the most recent few months of exponential price appreciation...

Rolling weekly average of the fraction of market depth attributable to high-frequency style market makers during North American, European, and Asian trading hours (LHS; %) versus BTC/USD price (RHS; \$)



Note: For details see [Wallet Chain](#), H. St John et al., 30 Oct. 2020.

Source: J.P. Morgan, NYDIG

18/n

E. Regulatory risks:

Citi in a report "BITCOIN - At the Tipping Point" opines:

"Despite most ardent wishes, it might prove almost impossible for a government to shut access to BTC or prevent its ownership or usage w/out effectively causing shutdown of the global Internet."



BITCOIN

At the Tipping Point

Citi GPS: Global Perspectives & Solutions
March 2021



19/n

F. Way forward:

There are increasing cues that the way forward would be a middle path between a centralized monetary network and a decentralized network such as Bitcoin - something what experts are calling "Stablecoins". Or Central bank backed digital currencies.

20/20

Conclusion: It is difficult to have one particular conclusion of a globally debated topic such as Bitcoin and Cryptocurrency, but we close with these articulate and poetic closure by Citi in their note.

Let us know questions or thoughts and we would love to discuss.

Conclusion

The philosopher Schopenhauer once remarked that “All truth passes through three stages. First it is ridiculed. Second it is violently opposed. Third it is accepted as being self-evident.”¹⁸⁷ Though this sentiment was expressed more than 150 years before the emergence of Bitcoin, the introduction and evolution of the cryptocurrency illustrates this very human response to change.

The idea that a new payment system relying on a decentralized cryptographic approach to facilitate transactions in an extrajudicial manner might gain traction and challenge traditional payment rails seemed like a pipedream in the early days of its release. This gave way to denouncements and restrictions as governments, banks, and regulators sought to limit its growth. As recent events have shown, however, that resistance may now be melting away.

Large institutional investors and organizations are choosing to participate in and support Bitcoin. Regulators are beginning to lay the groundwork for the asset to potentially enter the mainstream. Governments themselves are being pressured and many are re-considering their own currency offerings. The vision of Bitcoin as a force that will transform the world may seem self-evident in just a few more years. The fact this progression has occurred in just over a decade makes Bitcoin remarkable regardless of its future.

Throughout this journey, the perception of what makes Bitcoin unique continues to morph. Bitcoin is now many things. To some, it is a payment system based on new technology set to potentially drive a re-wiring of the entire payments landscape. To others it is a new currency that can store value in a unique way and marks a new model of issuance beyond the control of any one nation. Many focus on the limitations imposed on Bitcoin’s supply and liken it to digital gold, focusing on its value as an asset class. Those thinking about its future see the potential for Bitcoin to become a global facilitation currency helping to reduce the friction and complexity of cross-border trade.