

Sprott Gold Report: Cryptocurrencies, Solid Gold or Just a Flash in the Pan?

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The Gold vs. Crypto Debate

One prominent 2017 storyline was, “Gold is dead — long live cryptocurrencies!” Gold and cryptocurrencies were cast as opponents in a “monetary” boxing ring featuring the two best alternatives to fiat currencies that are decentralized and function outside traditional government-controlled financial systems.

To anyone unaware of gold’s role as a medium of exchange and a store of value over the past 5,000 years, it seems obvious that cryptos appear to offer the best of gold’s benefits without the old-school boredom. Last year, digital currencies looked like the natural evolution for monetary skeptics — a new alternative all wrapped up in a leading-edge cryptographic algorithm you could store in your digital wallet. Who buys gold coins anymore? Hold on a minute. Scanning the headlines today and listening to the talking heads, there is certainly far less euphoric crypto chatter. The nearly 70%, four-month collapse in crypto-king Bitcoin seems to have stunned its army of advocates.

Bitcoin is part of a powerful new technology making it a lot more exciting than gold, but does anyone still think Bitcoin is a proven “store of value?”

Can You Even Hold a Bitcoin in Your Hand?

It is ironic that gold has become the go-to analogy for what Bitcoin supersedes. Yet in countless media reports on digital currencies, what physical, tangible object is usually pictured to represent a Bitcoin? Looks a lot like a shiny gold coin with a \$-sign stamped on it.

Which leads to the related observation that gold has been the same tangible, physical thing for thousands of years. An ounce of gold is an ounce of gold. Always has been and always will be. The only Bitcoin attribute similarly beyond debate is that almost everyone has no clue what a Bitcoin represents or how it should be valued. Gold has a near infinite track record of performance and function. Cryptos, by contrast, are in the first inning of a game with amorphous rules, making it hard to score and ultimately know who will win. Essentially, crypto investors are buying into the early stages of a startup. And with most startups, comes uncertainty, risk and volatility — not safety.

New Technologies Can be Transformational, and the Crypto Ride has Been Thrilling

A primary reason why investors have always looked to gold is for protection against central banks’ monetary policy decisions. It’s a diversification and safety tactic, not one for speculation. You see this difference in how the two assets — gold and Bitcoin — move. My colleague, Sprott Asset Management Senior Portfolio Manager Trey Reik, showcased this difference in volatility in his 2017 report, [Why Cryptocurrencies \(Bitcoin\) are Unlikely to Usurp the Role of Gold](#).

From a February 2001 low of \$253.85, spot gold climbed 657% to a September 2011 high of \$1,921.15, before falling 46% to an intra-day low of \$1,046.43 in December 2015. Describing these bull and bear runs, Reik wrote, “Of course, these moves took ten-and-a-half years and four-and-a-quarter years ... to unfold.”

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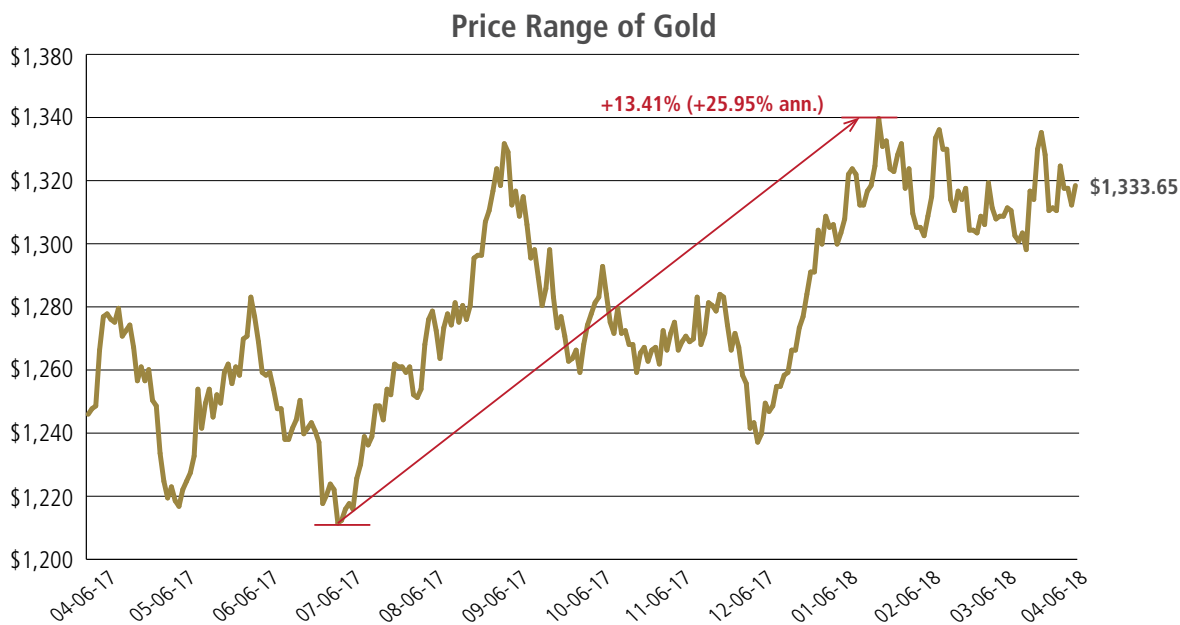
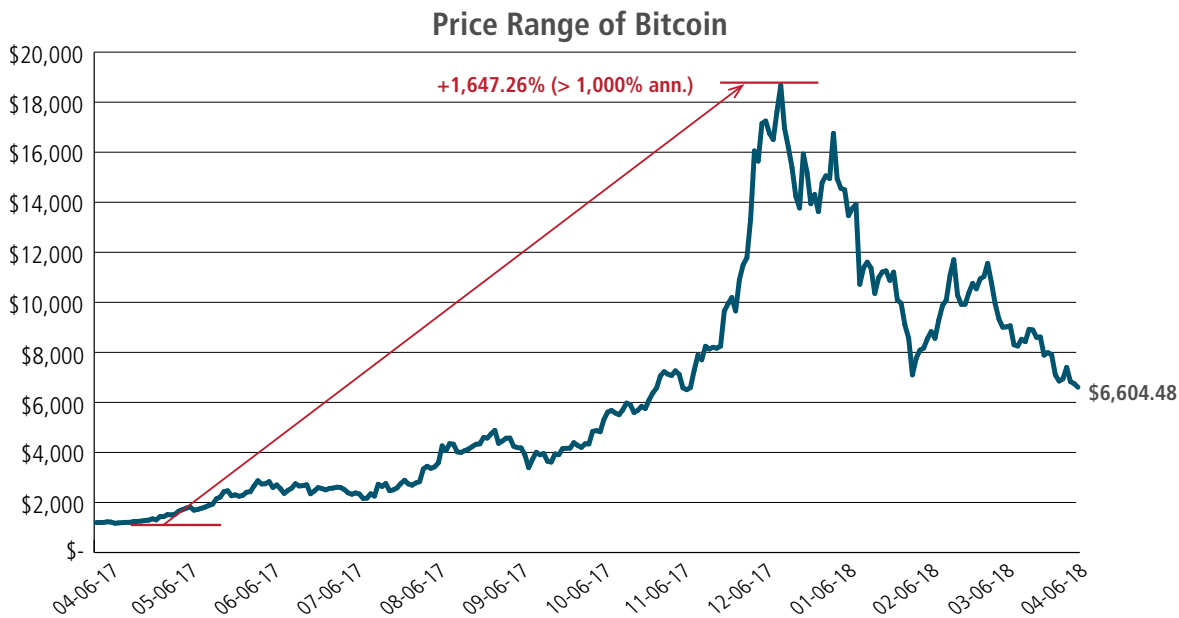
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Meanwhile, Bitcoin rose an astounding 1,270.5% in 2017. Thus far in 2018, it has fallen 45% and sits 62% from its all-time highs, which it hit in December 2017. It took cryptocurrencies just *three months* to fall 46% – a decline that took gold *four years* to cover (2011 to 2015).

As shown in the charts below, for the trailing 12-months, Bitcoin's price range has spanned an astounding 1647% compared to sober gold's 13% span.

Price Ranges of Bitcoin and Gold: Trailing 12 Months

(April 6, 2017, to April 6, 2018)



Source: Bloomberg.

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Gold Has a Proven Track Record

When investing in gold, extreme volatility has not been the historical norm. Even at a time when market sentiment has been mostly ebullient, a historically less active period for investing in the metal, gold has still risen 6% over the past year (for the 12 months ending April 6, 2018).

Gold investors also know that there is a baseline to their investment since no matter what goes wrong in the financial markets, gold still has inherent value. That's certainly not the case for cryptocurrencies. Gold investors can also take comfort in the fact that many societies and central banks continue to hold gold as a store of value.

Sprott Firmly Believes in Blockchain Technology

The backbone of cryptocurrencies is blockchain technology – a distributed, immutable ledger. At Sprott, we believe this revolutionary innovation will change banking, payment systems, contracts and trading. We also believe it will change precious metals investing and have invested in TradeWind, a technology startup that uses the blockchain to speed up and streamline digital gold trading (Read [Sprott-Backed Blockchain Platform to Give Gold Digital Edge](#)). Gold will likely become a form of digital money one day, due to the blockchain's capabilities. It's technology we want to support.

Cryptocurrencies, as opposed to the blockchain, refer to the intangible digital "coins" encoded on various public blockchains. That means the fluctuations of the cryptocurrency provides a constant read on the market's opinion of the particular blockchain. It's as if you're viewing the real-time market analysis of a startup within an incubator. When commentators compare the performance of cryptocurrencies to gold prices, it's like benchmarking a Kickstarter project against Apple Inc. (AAPL). The two aren't meaningfully comparable, and neither are gold and cryptocurrencies.

You can find an illustration of these startup dynamics in the rise and fall of Lumens, the cryptocurrency developed by Stellar, a blockchain-based financial payment platform. Lumens' market capitalization jumped from \$313 million in October 2017 to \$16.4 billion in December 2017, due in part to a deal with IBM.¹ The deal came at the height of the general hysteria surrounding cryptocurrencies, which aided in Lumens' rise. After the fervor over IBM's participation passed, the market revised its expectations, leading Lumens' market cap to shed more than \$12 billion.²

Investing in Cryptocurrencies is Speculation

What happened with Lumens should be expected. When placing wagers on cryptocurrencies, it's not a safety or diversification play, but speculation. You're betting on startups, whether there's a company behind it or, like Bitcoin, a decentralized blockchain that you believe will become more mainstream. Tomorrow, any public blockchain could crumble due to lack of funds, lack of users, weak governance, a security breach, or multiple other common risks that face new businesses. Any of these could send the price of the crypto down to \$0, leaving investors with nothing.

There is Always Value in Gold Bullion

Gold isn't a startup, and it is certainly no "flash in the pan." Gold investors do not have to worry about a "company" dissolving, and no matter what happens there is always value in gold bullion – hence its deserved immutability. And that's been proven over millennia.

Additional Resources on Cryptocurrencies

[Cryptocurrencies: New Gold or Fool's Gold – October 2017](#)

[Sprott Gold Report: Why Cryptocurrencies \(Bitcoin\) are Unlikely to Usurp the Role of Gold](#)

¹ "IBM And Stellar Are Launching Blockchain Banking Across Multiple Countries," Fortune.com, <http://fortune.com/2017/10/16/ibm-blockchain-stellar/>

² Price changes and market capitalizations were based on April 4, 2018 levels.

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