

# Cryptocurrencies: New Gold or Fool's Gold?

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# Featured Presenters



## **Edward Coyne**

Executive Vice President, National Sales  
Sprott Asset Management USA

Mr. Coyne joined Sprott in January 2016 and has more than 23 years of investment management and sales experience. Previously, he was a Principal and Investment Specialist at Royce & Associates for over 18 years. Prior to that, Ed worked at Zweig mutual funds and Neuberger Berman as a Regional Sales Director.

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## **Trey Reik**

Senior Portfolio Manager and Precious Metals  
Strategist  
Sprott Asset Management USA

Mr. Reik has dedicated the past thirteen years to comprehensive analysis of publicly traded gold-mining companies, developing significant perspective on their intrinsic values under a wide range of market conditions. Additionally, Trey is a renowned commentator on gold markets and monetary policy, including policies and actions of global central banks, global conditions for money and credit, and factors affecting supply/demand conditions for gold bullion.

# Sprott Asset Management

- Sprott is a global asset manager providing investors with access to highly-differentiated precious metal and real asset investment strategies, backed by three decades of experience.
- We manage more than \$7 billion in precious metals and real assets, and offer best-in-class solutions:
  - Physical Gold ([PHYS](#)), Silver ([PSLV](#)) and Platinum & Palladium ([SPPP](#)) Trusts.
  - Factor-based ETFs focusing on junior and senior precious metals equities ([SGDM](#) and [SGDJ](#))
  - Public and private long-short equities, lending and credit.
- We recently announced the acquisition of the Central Fund of Canada, which will add a fourth physical solution that will focus on both gold and silver (read [Press Release](#)).

# How Should Gold and Cryptocurrencies be Classified?

- Long-Term Investments or Speculative Assets?
- Money?
- Stores of Value?



# 2017: The Year of Cryptocurrencies

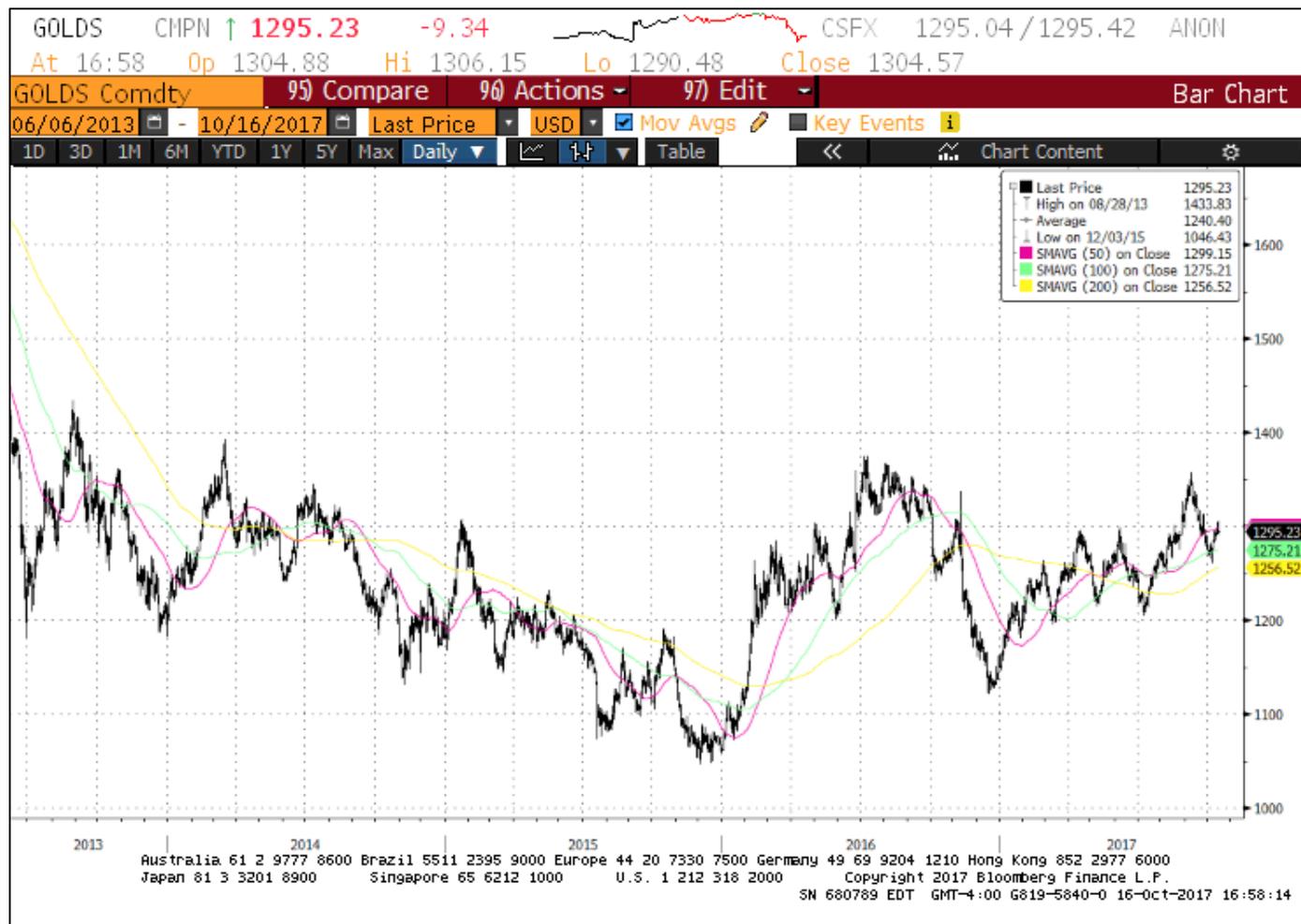
- A highlight of 2017 financial markets has been the explosive interest in cryptocurrencies.
- Bitcoin has consolidated its position as the dominant cryptocurrency (roughly 50% market share).
- Bitcoin's success has spawned a legion of competitors.
- Bitcoin's strong price performance has garnered ubiquitous media coverage.
- Debate now rages over Bitcoin's true nature: speculative asset, money, or store of value?

# How Should Gold and Cryptocurrencies be Classified?

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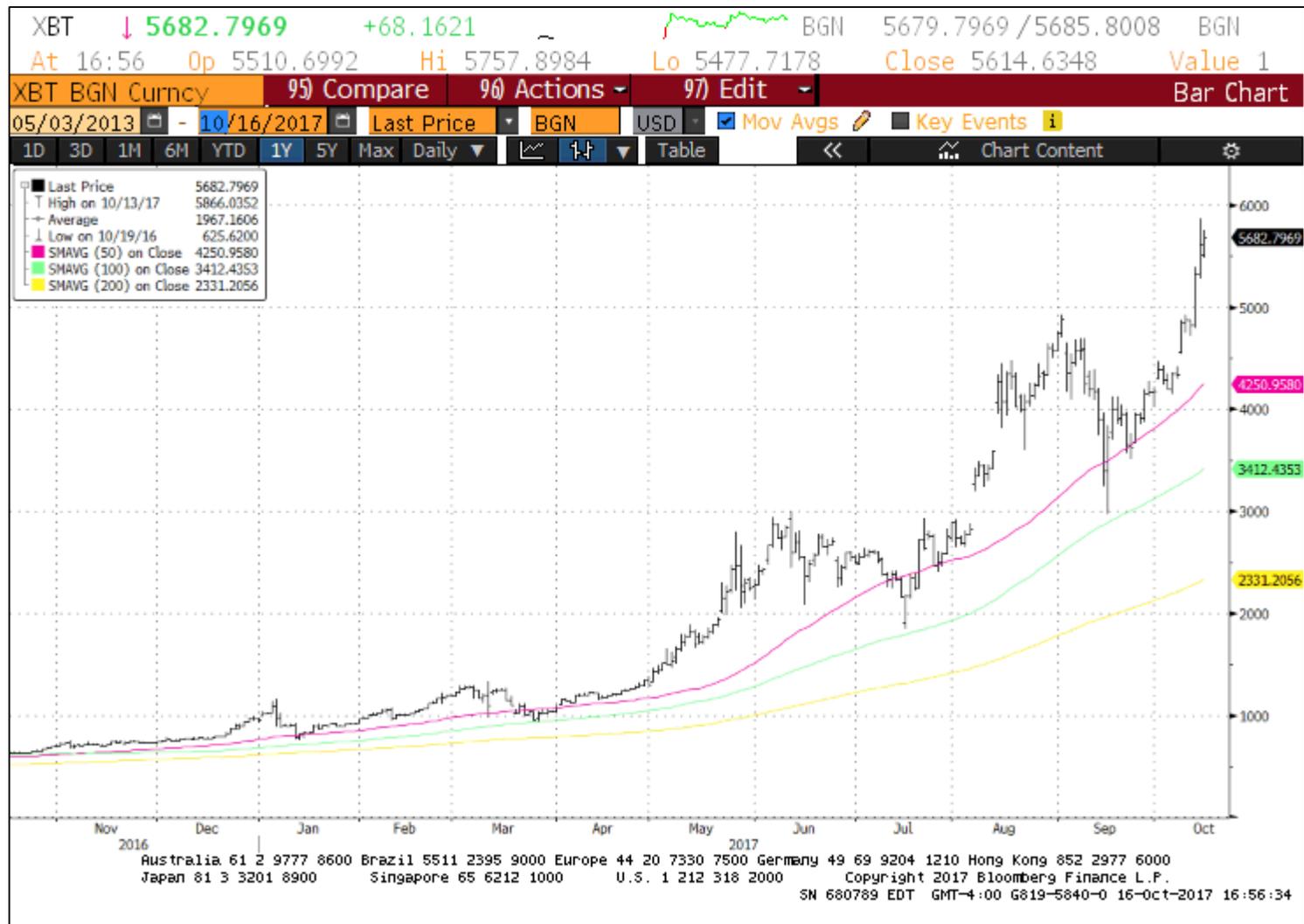


# Gold: Long-Term Investment or Speculative Asset?



Spot Gold Price Performance (6/4/13-10/16/17) [Bloomberg]

# Bitcoin: Long-Term Investment or Speculative Asset?



# How Should Gold and Cryptocurrencies be Classified?

- Is Gold Money?
- Is Bitcoin Money?



# Gold: Money?

- For billions of people, Gold is a preferred medium of exchange and store of value.
- Sovereign Gold coins are freely exchangeable into local currencies in most countries.
- Central banks have been increasing allocations to Gold in monetary reserves.
- Gold is increasingly utilized by many countries as a medium of trade settlement, to reduce the hegemonic status of the U.S. dollar.
- China is launching a crude oil futures contract denominated in Chinese yuan and convertible into Gold on the Shanghai and Hong Kong exchanges.



# Bitcoin: Money?

- Only 3 of the 500 largest Internet retailers currently accept Bitcoin for payment (down from 5 in 2016). Overstock.com, Expedia, PayPal accept Bitcoin; Amazon, Apple, and Wal-Mart do not.
- Bitcoin enthusiasts sponsor petitions to retailers to accept Bitcoin. The Amazon petition had collected a *whopping* 5,381 signatures by 6/30/17.
- In June 2017, the **average** (not the worst) confirmation time for a Bitcoin transaction was 2,500 minutes (1.73 days).
- 20% of Bitcoin transactions (the majority of small-scale payments) “fail” to be recorded on the blockchain at all.

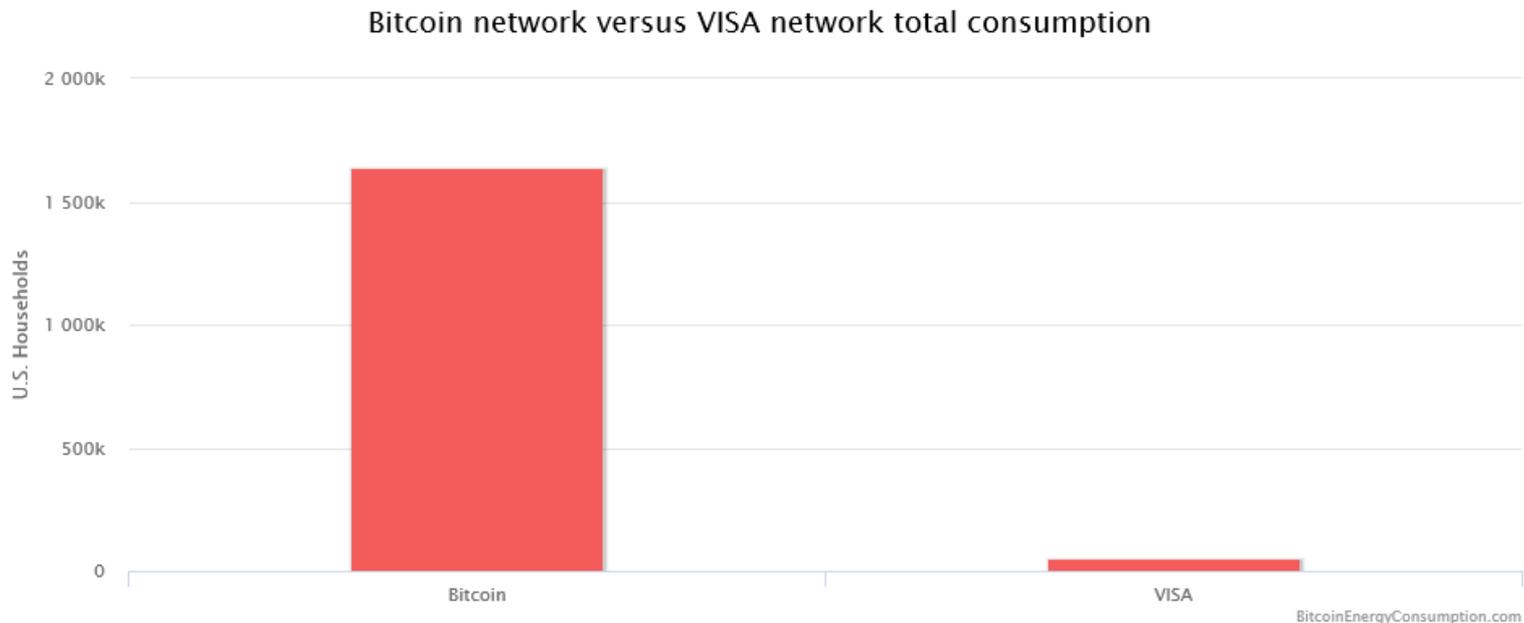


Context: There are ~80 million Amazon Prime members, representing 64% of U.S. households.

Source: Internet Retailers Conference and Exhibition (IRCE). Data as of June 30, 2017.

# Bitcoin: Money?

- A typical Bitcoin block (nearly 1MB) includes roughly 2,000 transactions or about 3 per second.
- VISA processed 82.3 billion transactions in 2016 or 2,610 per second.
- Energy consumed by VISA data centers equated to 50,000 U.S. households vs 1.6 million for Bitcoin.
- Bitcoin uses ~33x as much energy as VISA, or nearly 28,500x as much energy per transaction.



# How Should Gold and Cryptocurrencies be Classified?

- Gold as a Store of Value?
- Bitcoin as a Store of Value?



## Similarities

- Limited Supply vs. Fiat
- Outside Traditional Financial System
- Somewhat Immune to Central Bank Policies
- Fringe Role as Money

## Differences

- Infancy
- Immutability
- Volatility
- Safety & Trust
- Scale

# Differences: Infancy

- Gold enjoys 5,000 years of history as unparalleled store of value.
- Bitcoin is viewed as the undisputed market-leading cryptocurrency in an emerging technology called the blockchain.
- Remember: Netscape was once the undisputed market-leading browser in an emerging technology called the Internet.
- It is too early for definitive evaluation of Bitcoin's long-term prospects, much less to compare Bitcoin to Gold as an enduring store of value.

# Differences: Immutability

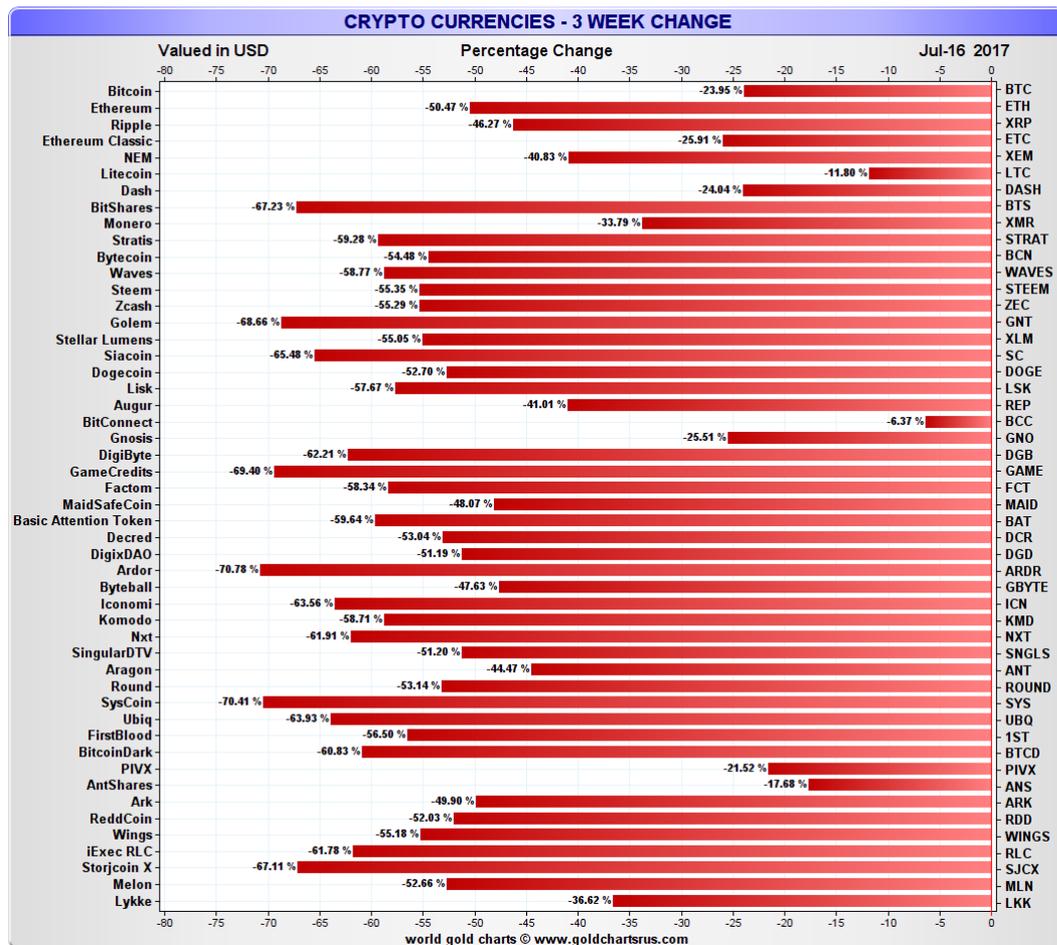
- For 5,000 years an ounce of Gold has been exactly the same: an ounce of Gold. There are no variations, imitations or substitutions.
- Central banks favor Gold for its extraordinary density and rarity, and do not hold diamonds or fine art due to their infinite variability.
- Bitcoin is a string of code generated by software protocols and cryptographic algorithms.
- The technological impregnability of the blockchain appeals to Silicon Valley techies, but serves as a cloak of ambiguity to most investors.

# Differences: Volatility

- Contrary to popular understanding, Bitcoin ownership is extremely concentrated, with 4.11% of Bitcoin “addresses” controlling 96.53% of outstanding Bitcoins.
- This means that 95.89% of Bitcoin addresses are trading just 3.47% of outstanding Bitcoins.
- These parameters explain Bitcoin’s hyper volatility.

# Differences: Volatility (cont.)

- This graph portrays the percentage declines of the 50 leading cryptocurrencies in the three weeks ending 7/16/17.
- No asset class experiencing broad based declines between 40% and 70% in a three-week period should be confused with a store of value.



# Differences: Safety & Trust

- Gold offers a range of safekeeping options, from safe-deposit boxes to impenetrable bank vaults; in contrast, Bitcoin still presents significant hurdles for true safekeeping.
- Gold is an investment asset with a strong legacy of trust and oversight.
- Bitcoin enables a “distributed network of trust,” in which Internet users transfer digital property to one another in a manner deemed to be safe and secure.
- While this works for flipping Bitcoins for a profit, Bitcoin is not likely to be used for wealth storage until an element of institutional trust and oversight is introduced.
- As infallible as blockchain code may be, Bitcoin storage methods still involve a wide range of Internet-type vulnerabilities.
- ICOs have been plagued with frequent instances of fraud and theft.

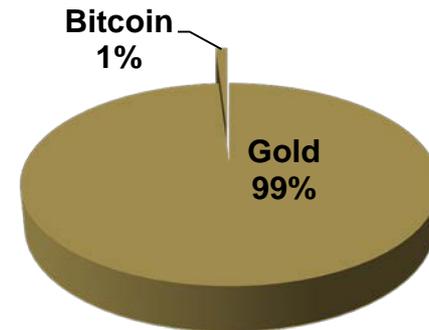
# Differences: Scale

- An intellectually attractive aspect of Bitcoin's design is its strictly limited supply; hard-caps circulation at 21 million units (currently 16.6 million).
- This scarcity value, however, does not apply to competing cryptocurrencies, which now number 1,150 (and growing).
- While Bitcoin may represent an attractive portfolio diversifier, its relatively tiny market capitalization cannot compete with size, depth and liquidity of Gold markets.

Gold's above-ground stock totals = \$7.8 trillion  
Bitcoin's market capitalization = \$90 billion

*The Bitcoin market represents 1% or 1/100 the size of the Gold market.*

**Gold vs. Bitcoin**  
Relative Market Size



# Are Gold and Bitcoin Stores of Value?

## Differences (Gold vs. Bitcoin)

Infancy: Gold 5,000 years **vs.** Bitcoin 2009

Immutability: Central Banks **vs.** Silicon Valley

Volatility: Widely held **vs.** Concentrated ownership

Safety & Trust: Strong legacy of trust & oversight **vs.** methods still evolving

Scale: Gold \$7.8 trillion **vs.** \$90 billion



# Gold Moves into the Modern World

- Sprott partners with TradeWind Markets to digitize and modernize Gold through IEX's exchange technology.
- TradeWind is a technology company developing a platform solution for physical Gold.
- Blockchain allows custody of Gold to live in the digital world through the creation of Digital Gold (DAU) with CUSIP registration.
  - Fair, transparent and low-cost agency market.
  - Secure custody with distinct advantages over bars and coins.
- The TradeWind ecosystem is ever expanding through a broad set of industry leading participants, such as Sprott and IEX Group Inc.
- TradeWind has secured key market participants in vaulting, operations, market making and distribution.

# Summary

- Gold continues to be an effective long-term investment and a proven store of value.
- Bitcoin is an interesting idea as a speculative trade and cannot replicate gold as a store of value.
- In the current environment, gold should be viewed as a mandatory allocation in any well diversified investment portfolio. At Sprott, we offer multiple solutions to the gold trade.



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Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable. These companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources and may lack management depth. The Fund will be concentrated in the gold and silver mining industry. As a result, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments.

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