Our Weekly Paid Newsletter

Richard Cluver Predicts

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My awakening interest in cryptocurrencies has stirred a number of readers to ponder the likely future impact of the blockchain algorithm upon their own lives in future and, more profoundly upon how it might dramatically re-shape the global economic system of the future.

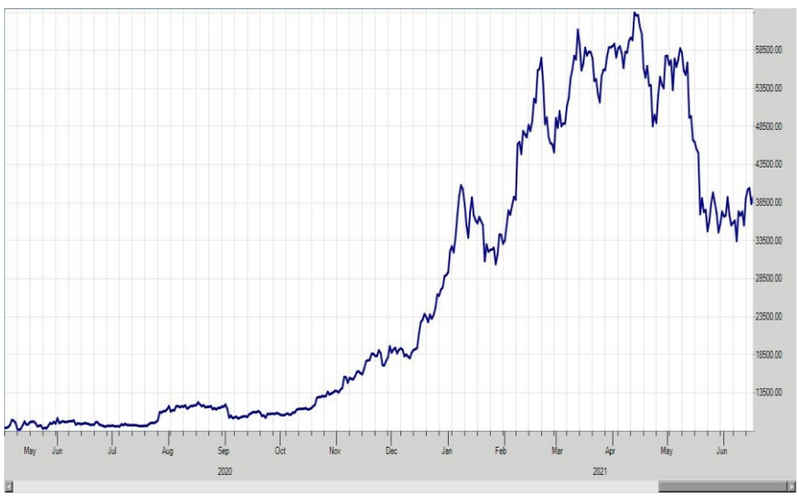
For those of you who are still a little bemused by the whole issue, let me start with Wikipedia's comment that a blockchain is a growing list of records, called *blocks*, that are linked together using cryptography. Each block contains a cryptographic hash of the previous block, a timestamp, and transaction data (generally represented as a Merkle tree). The timestamp proves that the transaction data existed when the block was published in order to get into its hash. As blocks each contain information about the block previous to it, they form a chain, with each additional block reinforcing the ones before it. Therefore, blockchains are resistant to modification of their data because, once recorded, the data in any given block cannot be altered retroactively without altering all subsequent blocks.

The practical reality is that anyone may create and own a blockchain wallet within which he may store both cryptocurrencies and, among numerous other items, the registration details of things he owns. Wallets are thus something like a bank vault. Anyone who pleases may access this wallet and note its contents but nobody other than the owner who possesses the cryptographic "key" to the wallet can know who the owner is. You might, for instance, lodge within a wallet an entire share portfolio worth billions. People choosing to look inside that wallet are free to do so but cannot either add or subtract from the contents and, more importantly, cannot determine who the owner is unless the actual owner decides to disclose his ownership.

Blockchains technology therefore has many practical uses. Retail giant Walmart, for example, three years ago initiated an experiment which has been used to allow retailers and consumers to track the provenance of meat and other food products from their origins to stores and restaurants. As of 2018, Walmart and IBM were running a trial to use a blockchain-backed system for supply chain monitoring for lettuce and spinach — all nodes of the blockchain were administered by Walmart and were located on the IBM cloud. One cited benefit is that the system could enable rapid tracing of contaminated produce.

So it is important to understand that while cryptocurrencies like Bitcoin, and the New ShareFinder coin that is shortly to be launched by ShareFinder International, rely upon a blockchain to ensure that the coins can be readily transferred between traders, to guarantee the anonymity of their owners and to similarly guarantee that the coins can never be counterfeited, such coins are simply a by-product of the system.

Against this background there is a raging current debate about whether cryptocurrencies represent a currency or an investment and just one glance at the graph on the right illustrates why this is so. In the past 12 months the US$ value of Bitcoin surged from $8 790 to $64 836 and back to a current $39 308 having recently touched a low of $31 114.



Clearly then, traders have been able to make huge fortunes by initially going long on Bitcoin and more recently shorting them. That suggests that Bitcoin are a commodity like, for instance copper which, if you consider my next graph, has over the past 20 years, seen a low in 2001 of $13.39 and a recent high of $107.10 on May 11 before falling back to a low of $90.88 this week.

Given that someone buying a shipment of copper ingots would need to fund the warehousing costs of holding copper since its 2001 price bottom, the fact that the metal has delivered a mean compound growth rate of 3.6 percent

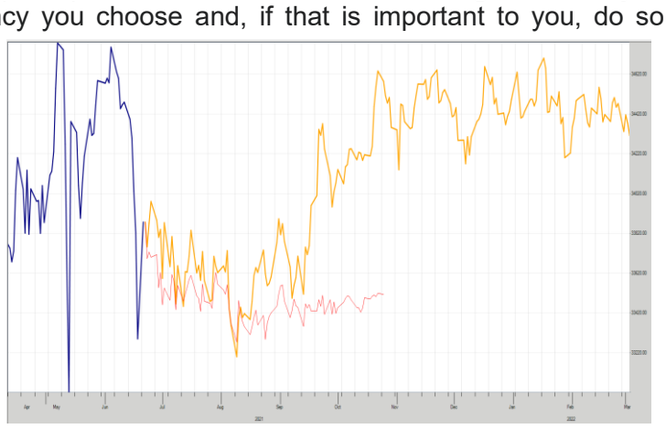
annually over the past 20 years implies that it is actually a very poor investment when compared to say an average Wall Street share which, measured by the performance of the Standard and Poors 500 Index over the same period, that I have illustrated in my first graph on this page, delivered compound 7.6 percent.

And to complete this argument, many developing world people argue that the volatility of their national currencies suggests that it is wise to "invest" in US Dollars. So is the US Dollar an investment or a commodity? If you consider my next graph, which traces the movement of the US Dollar relative to the South African Rand, you might similarly deduce that it would have been a poor investment over the past 20 years since, from its 2001 low of R7.66 to the dollar on February 28 of that year to its recent low of R13.40, it has delivered an effective compound growth rate of 3.3 percent. So it is probably fair to conclude that either the Dollar or the Rand, and possibly both have, graphically anyway, behaved like commodities.

Certainly, however, neither currency might be regarded as secure investments. Their extreme value volatility and poor value growth surely put paid to that argument.

By comparison, investments are also expected to yield a regular dividend – that's what the tax man demands when you seek to declare a speculative purchase as an investment - and nothing better fits that definition than the category of corporates whose shares are listed within the ShareFinder system as 'Blue Chips.' From an index low of 3281.366 in September 2001 New York Blue Chips rose to a recent peak value of 18 700.463 which, if you care to calculate it, represents compound annual average growth of 8.8 percent. Add to that an average dividend yield of 2.22 percent and you obtain, by comparison, a very attractive total return of more than eleven percent which clearly tops all the other options I have so far discussed…. until you consider crypto currencies which have demonstrably delivered 618 percent over the past year and since 2015 have delivered 526.31 percent compound.

One might, however, argue that since cryptocurrencies cannot by definition deliver an annual dividend, with a growth rate like that, who cares? Add to that they offer perhaps the ultimate medium of exchange because you are able to swop them for virtually any global currency you choose and, if that is important to you, do so beyond the prying eyes of the tax man, one can perhaps argue that nothing since the demise of the Gold Standard, has offered such flexibility.



Certainly, nothing quite like it has been on offer to the investment community since gold sovereigns, gold dollars and Maria Theresa Thalers - the silver bullion coin featured as the favoured means of exchange in the exploits of Lawrence of Arabia - which has been minted continuously since 1741. (*All Maria Theresa Thalers minted after 1780 bear the date '1780' and probably between 400 to 800 million Thalers have been minted since thecoin was introduced and is still being made by the Austrian Mint today.)*

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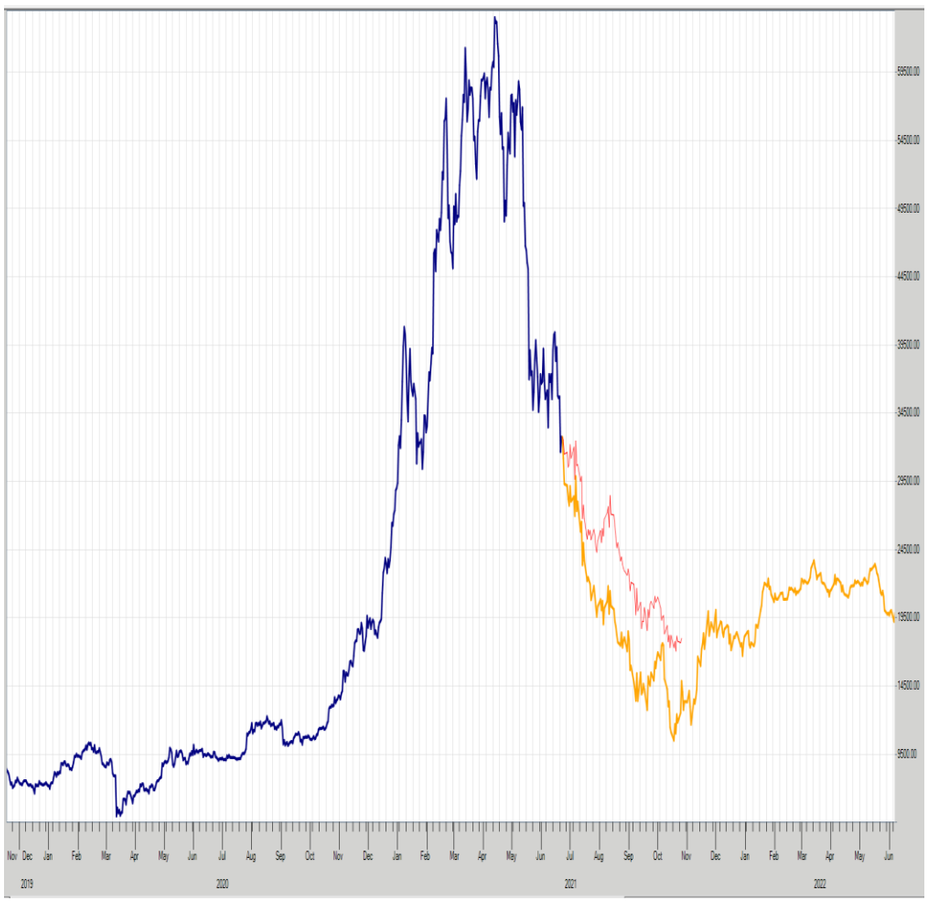
Arguably that is why cryptocoins are currently offering such explosive growth!



So, compared to the world's principal stock exchanges, what is the current outlook for Bitcoin? Well for comparison let me start with the New York Stock Exchange which, on the right, ShareFinder suggests is likely to bottom out around August 10.

By comparison, ShareFinder's projection graph on the right suggests that the recent price consolidation attempt by Bitcoin has failed and that further declines are likely until mid-October when you are likely to enjoy your best buying opportunity.

So let me end this column as I have done previously by noting that if cryptocurrencies do not conform to either the strict definitions of currencies or investments, they are undoubtedly going to play an increasingly important part of our futures because they are in so many ways pointing us to the future of world monetary and economic history. We who have lived all our lives with banks which moved money around on our behalf, stock exchanges which allowed us to profitably invest our savings and tax men who went around gathering in as much of what we earned as they could legally get away with, are now able to glimpse a future in which all three are becoming irrelevant.

What is going to give the new Sharefinder cryptocurrency special status is that, unlike the rest, it will be backed by being linked to the shares of an established global company. Whether the currently available cryptocurrencies represent a speculative currency or an actual investment is still an open question but I believe the ShareFinder Coin will thus prove to be a genuine investment which will over time pay handsome and rising dividends to its investors and simultaneously thus enjoy a rising value. In time then, it should prove to be an international Blue Chip.

Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly anticipated the past week's start of weakness which I also correctly expected to this week result in a short recovery which is likely to last until Monday when a fresh decline is likely until mid-August followed by a recovery until late November when a volatile sideways trend is likely to begin.

Nasdaq: I correctly predicted further increases which I saw lasting until the end of June and I continue to expect them to be followed by weakness until mid-September followed by a volatile well into the new year.

London's Footsie: I correctly predicted a volatile decline which began on June 16 and which I expect to last until mid-October followed by a brief recovery until mid-November and then further weakness through to next April.

Germany's Dax: I correctly predicted the beginning of weakness which I expected to continue until mid-October.

France's Cac 40: I correctly predicted the imminent start of volatile declines likely to last for the rest of the year. Next week I expect gains towards a double top at the end of the month followed by volatile declines well into the new year.

Hong Kong's Hangsen: I correctly predicted further losses likely to continue until the second week of July ahead of a volatile recovery until December when further declines are likely to begin.

Japan's Nikkei: I correctly predicted a recovery had begun and was likely to last until the end of October ahead of further steep declines thereafter well into the New Year. The next recovery phase is likely to only begin next April.

Australia's All Ordinaries: I correctly predicted a short interim recovery within a declining trend that began on june 16 and is likely to last until mid-September. From then I see gains until early December when another slide is likely to begin and last well into the new year.

JSE Top 40 Index: I correctly predicted a continuation of the long volatile slide that began in early March and is expected to last until early September followed by a brief recovery to early October and then a further slide until mid-February.

ShareFinder JSE Blue Chip Index: I correctly forecast that the peak had probably been reached but that another attempt was likely to begin this week and last until the end of July. Following that I see declines until next May at least.

Rand/Dollar: I correctly forecast the currency had peaked in value and from here would bounce along the top of its value until mid-October when I expect a weakening phase will begin.

Rand/Euro: I correctly forecast that the Rand had reached its peak value and would from now continue bouncing at these levels until a weakening phase begins in early September when a long reversal is likely to begin.

Bitcoin: I correctly called the current consolidation after May's steep declines but correctly predicted it would end this past week with further declines likely until mid-October when a recovery is likely to begin.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.25 percent. For the past 12 months it has been 92.55 percent.

Understanding the difference

By David Farelo

Bitcoin is currently the most popular cryptocurrency and was one of the first digital currencies to use peer-to-peer technology to facilitate instant payments. It inspired a host of other cryptocurrencies, a type of digital gold rush into alternative investments, and hit the Press for both good and bad reasons.

It ultimately ushered in the disruptive landscape enabled by blockchain technology and a revolutionary peer-to-peer mindset.

The Bitcoin white paper was released by the founder/s of Bitcoin (Satoshi Nakamoto) and outlined the principles for a cryptographically secure, peer-to-peer electronic payment system designed to be transparent and resistant to censorship. It aimed to put financial control back in the hands of the individual at a time when faith in central banks was beginning to wane. The world was in the grips of a financial crisis fuelled by extensive speculation in the financial markets and banks risking millions of dollars' worth of depositors' money.

Bitcoin laid the foundation for what is generally considered to be the first functional digital currency powered by the blockchain, inspiring Ethereum to essentially improve the blockchain with a motivated, digital, peer-to-peer community. Ethereum accounted for significantly more functionality, creating an entirely new financial services landscape referred to as DeFi (Decentralised Finance), driven by smart contracts and data science the like of which the world has never seen. In short, Bitcoin is viewed as a currency and store of value, while Ethereum is all about the technology held together by blockchain and smart contracts.

Watch these short videos https://www.currencyhub.co.za/video-library/
By around 2019, on the back of a growing network with greater access to technology and mobile apps (DeFi included), we witnessed the massive adoption of Bitcoin and other crypto assets at a retail level.

Bitcoin rose from $2,000 to $20,000 in a matter of months before its downhill slide in late 2017 where it lost half its value and left many doubtful of its future.

Then 2020 ushered in the Coronavirus pandemic and DeFi, thanks to the Ethereum network and community. There was again uncertainty across traditional markets following one of the biggest market crashes in history and investors were looking for a safe haven as an alternative to equities, gold and currencies. As the months played out, the US Fed issued a stimulus package three times larger than the previous q*uantitative easing* in 2010 as the dollar came under threat. One out of every three dollars in circulation had been printed in 2020. Think about that for a while and the inflationary impacts over time.
Companies such as Tesla and MicroStrategy rapidly bought up huge reserves of Bitcoin to protect their corporate balance sheets from a devaluing USD currency. The Bitcoin price increase was further boosted when platforms such as PayPal, Square and MasterCard announced they would support cryptocurrencies, giving rise to a massive network effect and accessibility. Shortly thereafter, Wall Street firms like Goldman Sachs, Citigroup, BlackRock, Deutsche Bank, and locally Investec Bank, launched crypto services for derivatives, prime broking and custody, while ETF's (Exchange Traded Funds) also began to appear. In 2020, 87% of Bitcoin investments were from institutional investors, dominated by asset managers who bought the dips when retail investors panicked and lost their nerve.

Bitcoin's price returned to the $20,000 highs of December 2020 and experienced a meteoric rise to $60,000 over the next few months, with speculations of a valuation of over $100,000 in 2021. Similarly, Ethereum peaked just above $4000, driven largely by the adoption of NFTs (Non-Fungible Tokens), with all cryptos experiencing a massive correction in Q2 2021 of around 40%. Correction or crash … Beginning or end of the (crypto) bull market?

While Bitcoin was initially created to compete against the gold standard and fiat currencies, ubiquitous with traditional finance and investing, it is increasingly being recognised as a store of value and is often referred to as *digital gold*, with a suggested portfolio allocation of 4% according to the CFA's Q4 2020 report. Ethereum has also attracted a lot of new investors looking to unlock the value of the technology and the DeFi movement, while also serving as a diversifier in an existing crypto portfolio.

Bitcoin and gold share several characteristics, such as value from scarcity – the total amount of Bitcoin still to be issued is pegged at 21 million; the inability to forge it; the ability to divide it up to eight decimal places while maintaining its value; the costs associated with mining Bitcoin and its durability, all of which make it effective for storing value.

While Bitcoin is still a relatively young asset, we expect to see traditional financial institutions treating it more like digital gold going forward, with speculation that Ethereum will outmanoeuvre Bitcoin's (simple) blockchain and outperform its market cap in the near future.

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Why Crime Could Kill Crypto

Cryptocurrencies helped enable a cybercrime wave, placing them in the crosshairs of regulators

By Justin Lahart and Talia Demos of the Wall Street Journal

The strongest argument against cryptocurrencies used to be that they had yet to show they were much good for anything. Now the strongest argument against them may be that they have become far too good at one thing: enabling crime.

Not long after the first of the private digital currencies, bitcoin, launched in 2009, crooks recognised its appeal. While law enforcement is proving increasingly adept at tracking bitcoin transactions and at times seizing ill-gotten money, the ability to make digital payments without financial intermediaries has facilitated activities such as the selling of illegal goods and services online and money laundering. In a 2019 paper, researchers Sean Foley, Jonathan Karlsen and Tālis Putniņš estimated that 46% of bitcoin transactions conducted between January 2009 and April 2017 were for illegal activity.

Speculative trading has since taken up an ever rising share of transactions, but a spate of recent ransomware attacks, where cybercriminals lock up a victim network's files and demand payment for their release, most often in bitcoin, has raised the threat level on digital currencies' crime problem. An attack last month on Colonial Pipeline shut down a critical East Coast gasoline pipeline; another, on JBS SA, halted operations earlier this month at some of the largest meat plants in the US.

More than just money is at stake. When organisations such as hospitals are attacked, lives can be on the line. In a recent interview with The Wall Street Journal, Federal Bureau of Investigation Director Christopher Wray compared the difficulties posed by the recent spate of ransomware with the challenge posed by the September 11, 2001, terrorist attacks.

One problem for law enforcement is that, even when the cybercriminals behind them can be identified, thefts that once would have required exchanges of bags of money or suitcases of gold to pull off can now happen entirely in countries where the US has no extradition treaty. The FBI was able to seize a portion of cryptocurrency that Colonial Pipeline paid to ransomware gang DarkSide but, because the gang is believed to operate in Russia, its members might be beyond reach. Another is that there is no easy way to beef up digital security to the point that hackers can simply be kept out of data vaults; the information protection systems we rely upon are too complex, and too pockmarked with vulnerabilities, for that.

Making it harder for cybercriminals to receive cryptocurrency payments, and thereby reducing the financial incentives for ransomware attacks, might help. Here, Mr. Wray's comparison with September 11 is telling. Following the attacks, the 2001 Patriot Act introduced an array of tougher provisions to the 1970 Bank Secrecy Act aimed at disrupting the financing of terror networks.

A blunt way to stem the problem would be to widely ban payment or trading in cryptocurrencies, as authorities in China have sought to do. But given the now-substantial financial stakes in them—cryptocurrencies have a combined value of $1.6trn, according to coinmarketcap.com—it is hard to imagine there being the US political will to do that. At least not as a first step.

But there are other steps US authorities could take, and these might also diminish the viability of the use of crypto in commerce, or at least raise the cost of using it. One approach might be to make it harder to use or transfer cryptocurrency once stolen, much like suitcases filled with $1m in cash are difficult to actually spend without getting noticed. The Biden administration is proposing to adopt the same requirement for crypto that all businesses have when they are paid more than $10,000 in cash—reporting it to the Internal Revenue Service.

Governments also could ratchet up monitoring responsibilities. A number of measures are already under consideration. Citing in part "national security imperatives," the U.S. Treasury Department last year proposed additional vetting for cryptocurrency transfers to so-called "unhosted wallets" that aren't associated with a bank or other regulated financial intermediary. The Financial Action Task Force, a global standard-setter for combating money-laundering, recently proposed new guidelines for expanding security requirements to a much wider range of crypto entities.

Such measures could make a segment of crypto transactions even beyond bitcoin a little less anonymous and decentralised—a prospect that many advocates would be loath to see. Increased regulations could also make legitimate transactions more onerous, reducing cryptocurrencies' appeal.

But the biggest risk to cryptocurrencies may be that such regulatory efforts won't be effective in curtailing the dangerous acts cryptocurrencies have helped enable.

In that case, the crimes might only become more heinous and severe restrictions on the use of cryptocurrencies more politically palatable.

The New York Times

DealBook

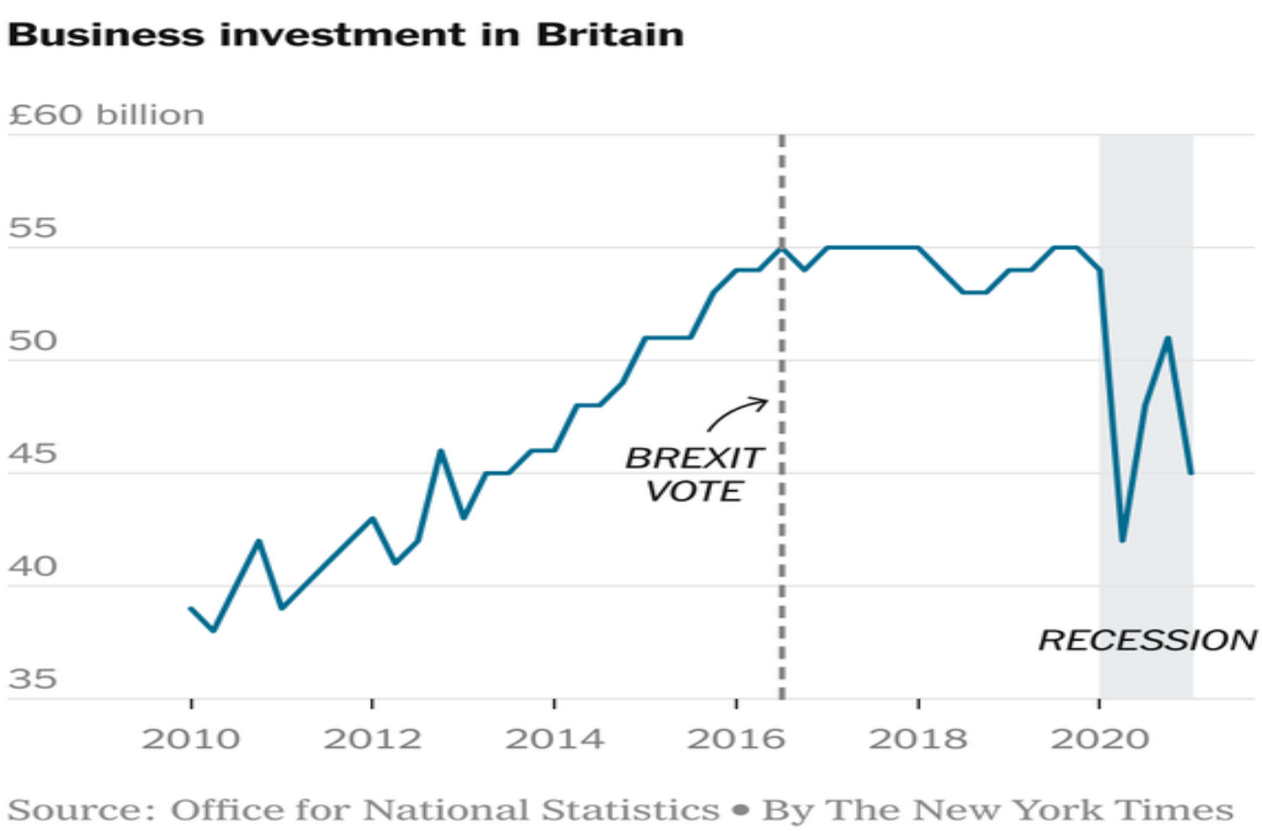
With Andrew Ross Sorkin

What changed after Brexit

Kirsty Wigglesworth/Associated Press

Five years ago, on June 23, 2016, Britain voted to leave the European Union. The separation has hardly been smooth, and in some ways the effects have yet to appear, Eshe Nelson, The Times's London-based business reporter, writes for DealBook.

The Brexit vote upended Britain's politics, divided its people and fundamentally altered its business environment.



Some of the fallout was immediate. The day after the referendum, the value of the British pound plunged the most in its history, setting off a period of rising inflation.

Other effects have emerged more slowly. In the past six months — after Britain formally left the bloc's single market and customs union — the impact has been harder to discern through the turmoil of the pandemic.

After the vote, business investment stalled. Companies were too unsure about Britain's major trading relationships to make big decisions. By the time there was any certainty, the coronavirus had hit British shores. Now, the government is planning a "super deduction" tax break to bolster investment. That could spur spending, but the underlying pace of growth is unlikely to return to its pre-referendum level.

It's too soon to unpick the overall impact on trade, especially for more than 180,000 British businesses whose only experience of international trade was with the E.U. New customs checks, veterinary requirements and other regulations have already restricted the movement of goods, and new agreements with far-flung countries aren't expected to replace the deal Britain had with its nearest neighbors as a member of the E.U. By the government's own estimates, its new trade deal with Australia will increase G.D.P. by as much as 500 million pounds (about $700 million) over 15 years, or 0.02 percent of output.

The financial services industry, one of Britain's most prosperous sectors, resigned itself early to diminished status in Europe. This year, European shares and derivatives trading has shifted out of London, and banks are still moving employees to other European capitals. In response, the British government is trying to revive London's reputation as a finance hub by overhauling rules on listings — welcoming SPACs, among other things — and loosening regulations for start-ups.

For many, Brexit was never about the economy, it was about immigration. Industries that relied heavily on European workers warned from the start about a looming labor crisis as it became harder for E.U. citizens to move to Britain. As the country recovers from the pandemic, that crisis has arrived.

Restaurants and hotels have been thwarted by staff shortages. There are warnings that there aren't enough food production workers or truck drivers. Pandemic restrictions were a factor in foreign workers leaving the country, and industry groups are lobbying the government for exceptions to visa rules so that more chefs, truck drivers and butchers can be hired from the E.U., as they don't expect those workers to easily return (or enough locals to step into the roles).

Britain's last year in the bloc coincided with its worst recession in three centuries because of the pandemic. Recovering from Covid won't be easy for any country, but businesses in Britain are also contending with the end of a four-decade economic union. It could be another five years, or more, before we know the true shape of Britain's post-Brexit economy.
