

# 6 Bitcoin myths busted

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Is it just a passing fad or the future of money? Is it a bubble or does it have value? Many South Africans hold strong views on Bitcoin, even as the cryptocurrency smashes through all-time price highs in 2021.



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## 1. Myth: Bitcoin is a massive bubble waiting to burst

Only time will tell whether Bitcoin will continue to surge or not. For now, however, it may be useful to take a longer term view of Bitcoin's performance. What is evident is that reports of the demise of Bitcoin seem to have been greatly exaggerated.

Many former naysayers are now dipping into Bitcoin and other cryptocurrencies and adoption rates continue to rise. JP Morgan, one of the largest investment banks in the US, indicated that while more than \$3 billion had flowed into the Grayscale Bitcoin Trust in the last quarter of 2020, gold ETFs had bled \$7 bn over the same period.

Bitcoin is a monetary network. When the concept of electricity being used to power appliances in the home was introduced, it wasn't considered a bubble but an engineering breakthrough. There will always be people who are afraid of progress.

## 2. Myth: With wild volatility, you can't take Bitcoin seriously

Many have declared Bitcoin dead (or dying), simply based on the latest changes in the price. The technology that drives cryptocurrencies like Bitcoin is one of the most important financial innovations of our time and the current price of Bitcoin has nothing to do with the long-term value that cryptocurrencies will bring.

If you're a trader, the volatility can be stressful and potentially profitable, but if you believe in Bitcoin as the future of money, your investment objectives are long-term and therefore short-term volatility matters less to you.

Volatility has decreased over time and the market is stabilising. Michael Saylor, CEO of MicroStrategy, who led the charge when his listed company elected to keep a significant portion of its treasury reserve in Bitcoin, has an interesting view of volatility: "Things that are dead are not volatile. Stability is stagnation. Living things are volatile."

### **3. Myth: Bitcoin has no intrinsic value**

This thinking could be applied to any currency. If people stopped believing in the dollar, it would also have no value. The price of Bitcoin is determined by supply and demand: the buyers who want Bitcoin and the sellers who have Bitcoin.

The reason Bitcoin has value is that it is a handy form of value or money commonly accepted by people. It is used to transfer value and buy or sell things. Unlike fiat currency - like the US dollar or the rand - where its value and legal status are enforced by the government, Bitcoin's value comes from its code, infrastructure, scarcity (there will only ever be 21 million) and adoption. By upgrading the financial system, Bitcoin empowers people.

Bitcoin has grown exponentially and has surpassed a market cap of \$1trn, yet this is still relatively small as an asset class.

In the context of the constant devaluation of fiat currencies, people are looking for ways to protect their wealth, including governments. Bitcoin is set to disrupt the world of money in the same way the internet disrupted everything a few years ago. Many believe that it is the future of money.

### **4. Myth: Bitcoin cannot be a currency, investment, and a store of value**

To be termed a currency, Bitcoin would need to be divisible, scarce, durable, transferable and fungible (can be exchanged for the same value or type). It meets all of these requirements - one Bitcoin divides into units as small as one hundred millionth; it is scarce as the total supply is limited to 21-million Bitcoin; it is durable in that it doesn't exist in physical form so it cannot wear out; Bitcoin is digital so you can transfer it to anyone, anywhere in moments and finally, any particular Bitcoin is equal in value to any other Bitcoin.

Bitcoin crosses many lines: it can be used for payment, like a currency; it can be used as a store of value since it has controlled supply, like gold or other commodities; and it derives more value and utility from developers who improve the code and ways it can be used.

This multifaceted aspect of Bitcoin makes it tricky to decide whether it should be treated as an asset, as a currency, as a payment mechanism or as an open, global technology. Regulators grapple with this as they decide how it should be treated.

### **5. Myth: Bitcoin is a Ponzi or pyramid scheme**

A pyramid scheme recruits members by promising them payment or rewards for enrolling others. A Ponzi scheme is very similar to a pyramid scheme, with the difference that you are not rewarded for enrolling other people. Instead, you earn a part of whatever recruits pay.

Bitcoin operates on a decentralised model with no hierarchy. There is no reward for buying coins nor are there guaranteed returns. In addition, the blockchain on which Bitcoin is built is entirely transparent; anyone, at any time, can inspect the public ledger. If you are considering investing in Bitcoin, increase your knowledge on Luno's free learning portal.

Big companies like PayPal and Tesla entering the crypto space, as well as listings like the Coinbase exchange on the Nasdaq, should help to end this myth.

## **6. Myth: Bitcoin is only used by criminals**

People found a way to carry out illegal activities, long before Bitcoin existed - they always will. But criminal use of crypto has shrunk dramatically over the past few years. In fact, cryptocurrency-related crime fell significantly during 2020, according to the latest Chainalysis report. In 2019, criminal activity represented 2.1% of all cryptocurrency transaction volume whereas in 2020, the criminal share of all cryptocurrency activity fell to just 0.34%.

Although Bitcoin is pseudo-anonymous in that it cannot be immediately linked to one's identity, Bitcoin is actually a terrible choice for carrying out anything illegal. Once your identity is linked to Bitcoin, your entire history is available and movements are far easier to trace than cash as blockchain technology is a public ledger.

As Bitcoin continues to gain legitimacy and use cases, data and law enforcement is getting better at tracing transactions to search for criminal uses and figuring out to whom an address belongs.

## **ABOUT THE AUTHOR**

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