

# BitCoin – The New Currency



By SIR Phil Goff  
Branch 116  
March 20, 2014



# Bitcoin – The New CryptoCurrency

- How did it get started?
- How is the currency created?
- Why does it have value?
- Who controls the value?
- Who Accepts Bitcoin?
- How Would I buy some Bitcoins?
- Why would I want some Bitcoins?
- Problems with Bitcoin currency.







# Where Do Bitcoins Come From?

- Bitcoin is based on solving an encryption formula which requires extreme amounts of computing power.
  - Each time you solve a portion of the formula you earn a “BitCoin.”
  - Websites like Deepbit.net help you set up the mining formula.
  - Companies began to sell hardware called gate array miners to enhance the processing speed.
  - Only 21 million BitCoins will ever exist
- Nearly all Bitcoins have been mined and are now in circulation.
- Great article on tomshardware.com titled “Confessions of an Accidental Bitcoin Miner.”







# Who Sells Bitcoins?

- Larger Buyers go to Exchanges
- An Exchange is a website with significant software and funding.
- Exchanges act as a clearing house to match buyers and sellers similar to Stock Exchanges. They keep a very small transaction fee for each trade.
- There are at least 21 Bitcoin Exchanges in the U.S. alone
- Mt Gox was one of the largest exchanges and was located in Japan









# Buy Bitcoins Locally

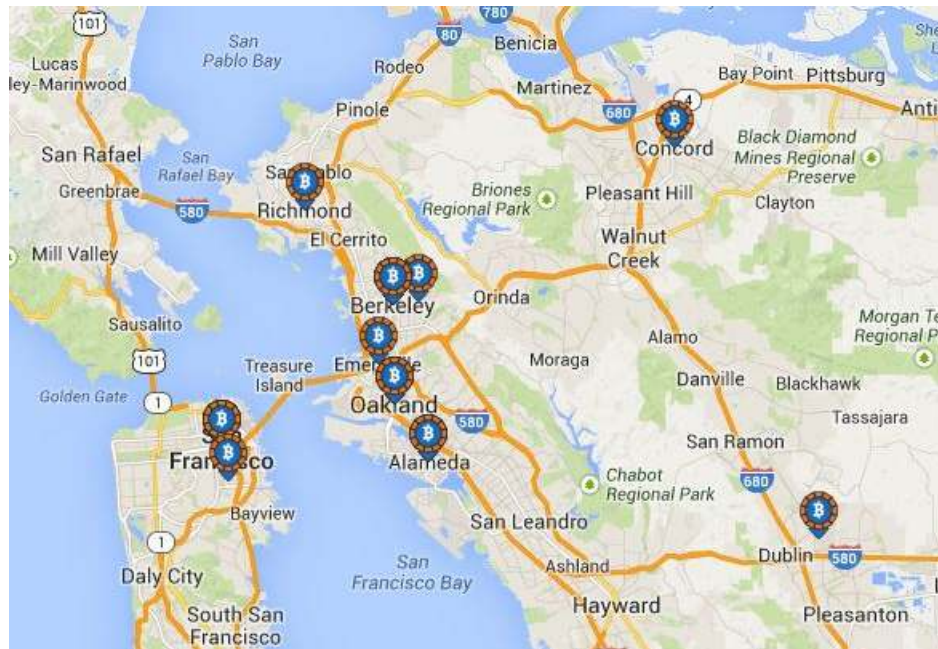
- Buying small amounts of Bitcoins is popular.
  - Find a dealer with an acceptable price (price is posted on the internet.)
  - Arrange a meeting place that is safe.
  - Bring cash since he/she doesn't accept any form of credit.
  - You pay him and he initiates a transfer from his account in a Bitcoin Exchange.
  - He gives you a secure code which deposits them in your "wallet."





# Buy Bitcoins Locally

- The number of Bitcoin dealer is growing.
- Do a Google search for local Bitcoin dealers.





# Buy Bitcoins from ATM

- ATM's that sell Bitcoin are in a very few locations.
- First one was in Texas in a gun store.
- Bitcoin ATM's only take cash.
- They only sell Bitcoin, you can't convert Bitcoin to cash.



# Activity Level

- Currently there are 60,000 to 70,000 Bitcoin transactions each day
- The level hasn't changed significantly in the last year.
- Log into [Blockchain.info](https://blockchain.info) to see the transaction activity.



# Bitcoin Value – 1 Year History

BitStamp (USD)

Feb 28, 2014 – Daily

■ Closing Price: 578

bitstampUSD

UTC – <http://bitcoincharts.com>





# Why is all the Money Flowing into Bitcoins?

Trading in Bitcoin can make you very rich! (or very poor.)



**90% of Bitcoin buyers are speculators.**

If people only bought Bitcoins to be used for e-commerce, the price would likely be much lower.



# Chinese Speculators Drive the Price







# Wall Street wants in on the Action

- Wall Street just opened the “Bitcoin Investment Trust” to speculate in Bitcoin prices without owning the currency. Minimum investment is \$25,000.
  - Currently has \$70 Million in assets.
- Expect Wall Street to develop leveraging instruments such as calls, shorts, straddles, etc.



# Bitcoin – The New Gold Rush

If you want to invest in Bitcoins .....



To Quote Dirty Harry:

You've gotta ask yourself a question: "Do I feel lucky?" Well, do ya?







# Bitcoin Outlawed in Some Countries

- Russia was first to outlaw Bitcoin transactions
  - They have enough corruption without Bitcoin
- China is restricting its use
  - Too much speculation
- Korea outlaws its use – claims it's not a legitimate currency
- Thailand shutdown the Bitcoin exchange in their country.



# Bitcoin Issues - Safety

- Largest Exchange, Mt Gox in Japan just went bankrupt
  - Hackers were siphoning off their Bitcoins
  - They lost \$450 million dollars
  - Account holders are the real losers
- Electronic Wallets
  - Many websites have created “secure” electronic wallets for you.
  - There are Wallets for Windows, Mac, iPhone, and Android
  - Some “Wallets” deduct a small fee for every transaction
- Wallets have proven to be safe, but no guarantees.



# Bitcoin is a Target

Proponents claim they have built a safe system and Mt Gox is an exception.

***Just remember:***

Willie Sutton the famous bank robber was quoted in an interview:

*Why do you rob banks?*

He replied, *Because that's where the money is.*







# Will Bitcoin Survive?

- JP Morgan Chase filed a patent to address the issues of a cryptocurrency like Bitcoin.
- Since most owners are speculators the true price for owning Bitcoin only to use as a currency is unknown.
- Hedge Funds and Banks will likely start trading Bitcoins similar to international currencies and gold.
- Bank of America announced that Bitcoin could be a major means of payment for commerce.



