

# CURRENCY MARKETS, BITCOINS & PERSPECTIVE

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### *What Investors Should Think About*

If I asked you to tell me about the New York Stock Exchange, I bet you could come up with a pretty good definition. And I bet you could give me a pretty good overview of other stock exchanges, including NASDAQ, the London Stock Exchange, Hong Kong Stock Exchange and maybe even Euronext. But could you tell me anything about the currency markets? Could you even tell me the name? Here are some things to think about:

### **Definition**

Currencies are traded on the foreign exchange market – Forex, FX or just the currency market – a global, decentralized market for buying, selling and exchanging. Forex is comprised of institutional investors, governments from around the world, large corporations, banks, as well as currency speculators.

Forex differs from the stock markets that you're familiar with in that those markets are housed in central physical exchanges, whereas Forex is an over-the-counter, decentralized market completely housed electronically.

In terms of trading volume, Forex is by far the largest market in the world. In fact, according to the Bank for International Settlements, foreign-exchange trading averages \$5.3 trillion a day – which is about \$220 billion per hour. Comparing it to the volume of the NYSE – 30 days of trading on the NYSE equals one day of trading on Forex.



As you might suspect, the US dollar makes up most of all Forex trading volume, followed by the Euro and then the Japanese Yen.

### **And Along Came Bitcoin...**

First invented in 2009, Bitcoin is different from other currencies traded on Forex in that Bitcoin does not require and is not backed by a central authority. Instead, Bitcoin is a peer-to-peer system for online payments that runs on a decentralized network of computers around the globe that keep track of all Bitcoin transactions, similar to the decentralized network of servers that makes the internet work.

You can buy Bitcoins with dollars or euros, just like you can trade any other currency. You then store your Bitcoins in an online “wallet.” And then with that wallet, you can spend Bitcoins online as well as in the real world for stuff. But there are no intermediaries – it doesn’t go through your bank or someone else’s bank.

### **The Currency of the Future?**

That’s hard to say of course, but the reality is that if you have a bank account or credit cards or even use PayPal you are already using digital currency. Same thing goes for when you trade stocks – you’re using digital currency. Let’s say you and I placed a trade to buy 100 shares of Apple stock. I’m not expecting you to show up to my office with a bag of money that I can then go deliver in exchange for your Apple shares, right?

The reality is that unless you actually use real cash – and how many of us use cash today – every time you swipe your credit card or debit card, you have to go through an intermediary like your bank or credit card company. And they of course have fees for this service.

Bitcoin, on the other hand, sets up a system where the buyer and seller deal with each other directly.

According to Coinbase, a company that helps users exchange and buy bitcoins, one bitcoin is currently worth about \$1,725, which makes it more valuable than an ounce of gold, which trades at about \$1,200. But the “value” of a Bitcoin can vary and has varied widely.

### **Or A Currency for the Shady?**

Lately Bitcoin has been in the news after some recent ransomware attacks. The malicious software locks down computers and files and won’t lift the lock-down unless they are paid a ransom in Bitcoins. Why Bitcoins?

Well, because with Bitcoins, the transactions you make are completely anonymous. Instead, whenever you trade a Bitcoin, you use a “private key” associated with your “wallet” to generate computer code that is then publicly associated with your transaction – but with no personal data. For criminals, this makes Bitcoin very attractive.

### **Perspective for Investors?**

As a financial advisor, Bitcoin represents a few interesting thoughts. The first and most interesting – at least to me – is that Bitcoin could prove to be the model for digital currency going forward. But there are still a lot of things to be ironed out and those are topics to be covered at another time.

Heck, trying to describe the deflationary nature of Bitcoins alone would take me another 1,725 words...