

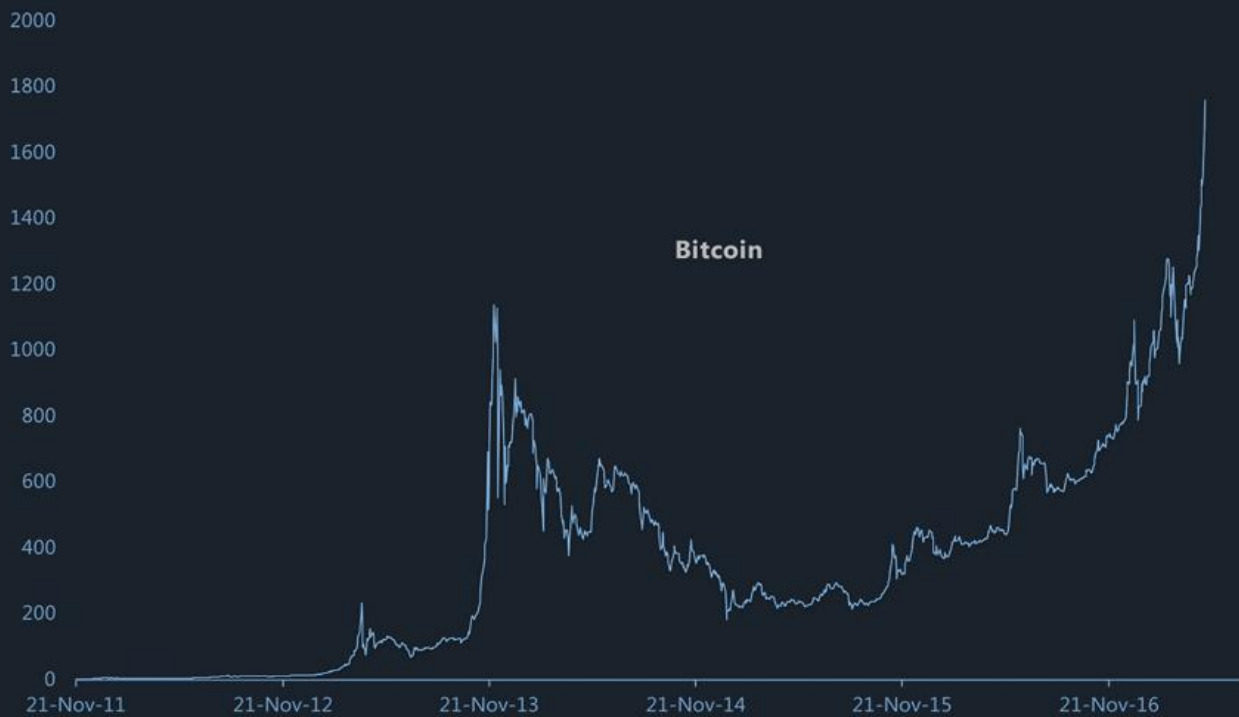


**gmi**  
GLOBAL MACRO INVESTOR

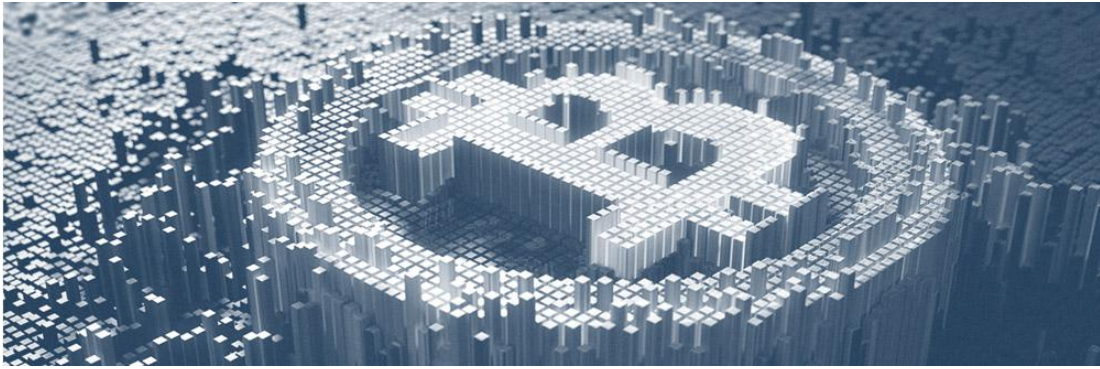
## SELL BITCOIN

UPDATE

MAY 2017



## Sell Bitcoin...



## Bitcoin

I am watching in awe as Bitcoin takes off exponentially yet again. I bought Bitcoin at \$200 a few years back and have held it ever since. *It is one of the best trades in the history of GMI, if not THE best trade...*



When I have written about Bitcoin in the past, I held some core beliefs:

- Bitcoin is a store of value.
- Bitcoin was going to develop a killer app.
- Blockchain technology was the true revolution.

However, things have begun to move away from that script...

### Store of Value

You have probably caught wind of the debate and discussions about changing Bitcoin's processing speed. It seems that the one block every ten minutes is holding back Bitcoin's development, along with other technical issues. The debate has raged between the miners and developers who both want change – but different change. There have been a number of new alternatives discussed, from hard fork to soft fork and Segregated Witness. All I know is that a change is likely to come... somewhere, somehow...

Without going into the complex technical details, the point I want to raise is that if the core developers are talking about changing the code for how Bitcoin works or talking about another Bitcoin altogether, then it cannot be deemed an irrefutable store of value. They are even talking about lowering the consensus rules to make a change to 51%, a pretty low hurdle compared to the current rule.

Something that is an irrefutable store of value *cannot* be changed – such as gold or even art.

The question has to be asked – *what if they decide in the future to allow the total number of coins to expand?* I know that seems unfeasible now, but these debates have meant that any thing and any change is now possible, if improbable.

That, to me, destroys the store of value argument.

#### The Killer App

Much has been said by Bitcoin lovers about the killer app that is likely to come out of payments processing, disrupting vastly inefficient, costly businesses such as Western Union, debit cards, credit cards and Swift.

It is several years since all this talk started and we still have no killer app. Meanwhile in India, BHIM and UPI payment apps have enrolled nearly a billion people and can process payments 50 times faster than Bitcoin. Sure, it's not an immutable, distributed ledger, but is it not the solution people were looking for? They wanted a virtually free way to transfer money instantaneously without a middleman. India solved that. *The blockchain was a solution looking for a problem, it seems.*

Meanwhile, the dinosaur that was to be disrupted – Visa – actually beat everyone to their own demise by launching their own blockchain for B2B payments. It seems that the killer app from Bitcoin failed to kill anyone.

Meanwhile, I also envisaged that the futures exchanges, derivative settlement systems and custody systems were going to find the use of Bitcoin blockchain technology incredibly helpful. However, what has actually transpired is that these key parts of the global financial infrastructure are now using private blockchains. No killer app from Bitcoin appeared.

The point to all of this is that all the incumbent businesses saw very quickly how disruptive blockchain technology was and acted immediately to develop it themselves to avoid being assigned to the dustbin. They have proven more adaptable than anyone deemed possible. Bitcoin has killed no one so far. Blockchain technology will make adaptable businesses stronger.

This makes me think that the Bitcoin killer app is never coming. It is all hopes and dreams.

#### The Blockchain Revolution

The recent GMI Round Table welcomed a return of one of the key players in the Bitcoin industry. I was keen to hear his thoughts on where things are heading, as he is one of the owners and founders of a Bitcoin exchange and has been instrumental in introducing me to the key players in the Bitcoin world.

Obviously, I have to respect anonymity so will not go into too much detail, but his exchange was probably the best positioned of any in the world to capture institutional business. That business was extremely slow to come. His focus has now shifted to private blockchains and away from Bitcoin. The old start-up pivot...

This was my biggest fear with Bitcoin; that the Bitcoin blockchain would be replicated by others, improved upon or tweaked for different purposes. The rise of Ethereum and Ripple is essentially this but the real revolution is how many private blockchains are being developed with no need for a token or tokenization such as Bitcoin or, if they do use tokens, these have no tradeable value outside of the system as that is superfluous to the needs of the users in these cases.

I see this trend everywhere from the banking and custody systems to Visa. It will appear in the accounting industry, the legal industry (smart contracts), the trade finance industry, the insurance industry and everywhere else where a distributed ledger and recorded ownership is desperately needed.

It seems that corporations around the world have fallen in love with blockchain, just not the Bitcoin blockchain. It is not in their interests to have a public ledger.

Bitcoin often seems to me to be a solution looking for a problem. I know of almost no corporation or large institution that needs, or even desires, a public ledger. The level of security of a giant public ledger is of no concern to, let's say, a group of eleven insurance companies, using a blockchain amongst themselves for insurance contracts. This would easily be secure enough for their needs.

Blockchain technology is going from strength to strength but the Bitcoin blockchain is languishing in the land of Chinese miners, retail investors and dreamers.

*This is not the Bitcoin I wanted or envisaged.*

Sure, Bitcoin will keep going and it may go up in price more, maybe a lot more. There will be some amazing applications. Some old giants will be killed. But I now doubt that any of it will meet the dreams we all had of Bitcoin. It is not going to disrupt at the massive scale we all bought into. Blockchain technology will however do that and more...

I'm happy to take my money off the table for now and see how it develops. *I have made 7.5 times my investment.* It's been a colossal home run but I don't want to overstay my welcome now that my dreams have been broken.

## **Trade Recommendation:**

**Sell to close Bitcoin**

## Further Thoughts:

Once I allowed negative thoughts of Bitcoin into my headspace, I realized that there was another very troubling point...

When I first looked at the crypto space I thought that Bitcoin would be the winner and that its blockchain would essentially be the Internet of finance over time.

But it now appears that a very clever invention can now be copied, tweaked and changed infinitely. Essentially, what we have created is a commodity in blockchain, some better than others.

This makes me think it's more like cloud computing or broadband, than let's say an equity or asset. The value of blockchains should converge to near zero, with some better than others and able to offer premium value.

Bitcoin's sheer size means that it will likely not be worth zero but maybe should trade at a utility cost over the USD, i.e. as a spread. It will likely be anchored to a currency via the relative valuation of assets. Sure, it will have booms and busts but it is highly unlikely to be worth \$1m, as I first thought.

Basically, if a slot on the blockchain is too expensive, people will use another.

This Bitcoin protocol is not deflationary as the hard currency believers dream – i.e. it goes up every year. It has a marginal utility that declines at higher prices. The price will be therefore most likely be deflationary and should trend lower as the value of somewhat interchangeable blockchains go to zero.

Although its relative value may remain elevated, it is far, far from a sure bet that it goes up further or stays up. Most of the other crypto currencies will go to zero, but not all of them for similar reasons.

This is a bubble. I've lived many before. Passionate believers will hate you because they are emotionally involved in an investment. It has made many, many people very rich from a very small base. No one believes that blockchain technology and crypto currency are possible commodities with infinite supply. Just because one has the largest market cap, doesn't make it the winner

I think they will all eventually go down for a long, long time. Again I am not necessarily calling a top in Bitcoin although it seems likely. I am just taking profits because the reasons I fell in love with Bitcoin have disappeared – *for me*.

The real riches are going to be made from blockchain applications, not blockchain owners nor even blockchain mining.

(He ducks and waits for bitcoin lovers to attack.)

## BACKGROUND

Raoul Pal has been publishing Global Macro Investor since January 2005 to provide original, high quality, quantifiable and easily readable research for the global macro investment community hedge funds, family offices, pension funds and sovereign wealth funds. It draws on his considerable 26 years of experience in advising hedge funds and managing a global macro hedge fund.

Global Macro Investor has one of the very best, proven track records of any newsletter in the industry, producing extremely positive returns in eight out of the last twelve years.

Raoul Pal retired from managing client money at the age of 36 in 2004 and now lives in the tiny Caribbean island of Little Cayman in the Cayman Islands.

He is also the founder of Real Vision Television, the world's first on-demand TV channel for finance: [www.realvisiontv.com](http://www.realvisiontv.com)

Previously he co-managed the GLG Global Macro Fund in London for GLG Partners, one of the largest hedge fund groups in the world.

Raoul moved to GLG from Goldman Sachs where he co-managed the hedge fund sales business in Equities and Equity Derivatives in Europe. In this role, Raoul established strong relationships with many of the world's pre-eminent hedge funds, learning from their styles and experiences.

Other stop-off points on the way were NatWest Markets and HSBC, although he began his career by training traders in technical analysis.

Should you wish to receive information about membership please email us at [\*\*info@globalmacroinvestor.com\*\*](mailto:info@globalmacroinvestor.com). The number of members is STRICTLY limited; only a few spaces are available each year as the membership is essentially full. A waiting list will apply if there are no spaces currently available.

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Raoul Pal, Global Macro Investor, Cayman Islands  
30<sup>th</sup> May 2017