momentum

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Bitmad (Part 2)

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Almost exactly one year ago, my colleague Richard Stutley wrote a blog on Bitcoin with the title 'Bitmad'. At the time the price of one Bitcoin was just above $6,000; from here it started its steep climb eventually reaching $20,000 a few months later, before crashing back down to around $6,000 again where it stands today. While a year ago we were amid an environment of euphoria regarding all crypto-currencies, today it feels the excitement around that universe has somewhat dissipated.

We think it is generally better to do research during quiet times and now that Bitcoin is no longer on the front page of newspapers every day, I have taken another look at crypto-currencies. I approached the task with an open mind, to see if there is anything I might have missed which may point to Bitcoin and other digital assets being worthy of an investment consideration. There is a lot of money invested in Bitcoin and its network infrastructure, so what do others know that I don't?

No matter how much reading and research I have done into Bitcoin and blockchain technology, I always come back to these fundamental questions; what is its utility or value? will it be around in 20, 50, 200 years' time?

There are a few ways we can derive utility from Bitcoin, the main ones being as a medium of exchange or a store of value, like gold or traditional currencies but in a digital form. As a medium of exchange, there is a limitation in Bitcoin design that makes it almost impossible to be broadly used as a currency; the ability to make payments for everyday transactions. As it stands today Bitcoin transactions are limited to approximately five transactions per second, which is far from what is needed for everyday use . Visa alone handles an average of 5,000 transactions per second, making it difficult for Bitcoin to replace card payments or cash anytime soon. The more promising use for Bitcoin could be a role as a digital reserve currency, but that appears extremely unlikely in these very early stages of its life, especially given its lack of stability.

The comparison to a digital version of gold is interesting, but the only real similarity seems to be that they are both very difficult to value. Bitcoins are scarce like gold – supply is limited to 21 million by design – but has many, many more substitutes; there are close to 2,000 different crypto-currencies beyond just Bitcoin, with new ones being created literally every day.

The main difficulty is in assigning a value to Bitcoin or other crypto-currencies and if you cannot reasonably value an asset, you should not invest in it. Bitcoin pays no distributions and does not accumulate any cash flows, therefore traditional valuation techniques such as discounting future cash flows cannot be applied. Furthermore, we need to be able to convert the value back to a traditional currency like dollars to arrive at a practical numerical value.

While I have learned a lot more about the technology behind Bitcoin and other alt-coins, I have made little progress towards being able to value them. Is the price of $6,000 for one Bitcoin cheap, expensive or fair? I really do not know. For now, buying Bitcoins is better left to speculators and as an investor, I would steer away from buying it for my portfolios .

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Market Focus

- Brent crude fell 0.8% to $80 a barrel
- Gold finished the week up 0.6% at 1227.5
- Tensions rise between Saudi Arabia and allies
- Stocks begin the week on the up, led by Asia

US

- The Dow Jones rose 0.4% last week to 24,444
- Jobless claims decreased by 5K to 210K, the lowest level since 1973
- The Nasdaq fell 0.7% to 7107
- September retail sales printed at 0.1% mom versus 0.6% expected
- The S&P index posted its biggest daily gain since March at 2.6% on Tuesday but finished the week flat at 2767.8

UK

- The ONS reported 5000 jobs lost in the UK economy during August – chanced of a rate hike in November seen as unlikely. UK unemployment still at a 43 year low
- Headline CPI was 2.4% in September, down from 2.7% in August
- Wage growth is the highest since the financial crisis with wages 3.1% this August than at the same time last year
- PM Theresa May is weighing up plans to extend the transition period to unlock talks that have reached an impasse on the Irish border question. She's expected to announce a divorce deal is 95% done.
- The FTSE 100 index was up 0.7% last week to 7049.8

Europe

- The Eurostoxx 50 rose 0.5% to 3210.8
- Moody's downgraded Italy's rating to Baa3 last Friday, S&P expected to follow suit this Friday
- The Italian government are due to confirm their 2.4% deficit target in a letter to the EC today
- Europe's banks have struggled in Q3 as their bond prices show for a number of factors including Italian government woes , the Danish banking scandal and Turkey's confrontation with the US

Rest of the World/ Asia

- Oil prices rose 1.85% as tensions between US and Saudi Arabia mount over the suspected murder of a dissident Washington Post journalist at the Saudi consulate in Turkey
- China's GDP increased 6.5% in Q3 which is the slowest rate since 2009 amid worsening trade tensions
- The Nikkei index fell 0.7% to 22,532
- The Hang Seng index rose 1.2% to 255561.4

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

Asset class/region	Currency	Currency returns Week ending 19 October	Month to date	YTD 2018	12 months
Developed markets equities					
United States	USD	0.0%	-5.0%	4.6%	9.5%
United Kingdom	GBP	0.8%	-5.8%	-4.9%	-2.4%
Continental Europe	EUR	0.8%	-5.7%	-4.9%	-5.9%
Japan	JPY	-0.6%	-6.8%	-5.0%	0.0%
Asia Pacific (ex Japan)	USD	-0.8%	-8.5%	-13.6%	-9.9%
Australia	AUD	0.7%	-4.3%	1.3%	5.1%
Global	USD	0.0%	-5.5%	-0.4%	3.4%
Emerging markets equities					
Emerging Europe	USD	-0.3%	-4.6%	-10.6%	-7.4%
Emerging Asia	USD	-1.3%	-9.4%	-15.6%	-11.8%
Emerging Latin America	USD	1.6%	4.9%	-2.3%	-5.6%
BRICs	USD	-1.0%	-6.6%	-14.6%	-11.7%
MENA countries	USD	1.4%	-1.6%	5.4%	6.4%
South Africa	USD	-2.5%	-8.3%	-28.3%	-17.7%
India	USD	-1.3%	-6.9%	-13.9%	-8.8%
Global emerging markets	USD	-0.9%	-7.2%	-14.4%	-10.9%
Bonds					
US Treasuries	USD	-0.3%	-0.7%	-2.5%	-2.5%
US Treasuries (inflation protected)	USD	-0.5%	-1.4%	-2.3%	-1.1%
US Corporate (investment grade)	USD	-0.5%	-1.2%	-3.5%	-2.8%
US High Yield	USD	-0.1%	-0.9%	1.6%	1.6%
UK Gilts	GBP	1.0%	-0.2%	-1.7%	-0.6%
UK Corporate (investment grade)	GBP	0.5%	-0.1%	-2.3%	-0.9%
Euro Government Bonds	EUR	0.1%	-0.8%	-1.4%	-1.4%
Euro Corporate (investment grade)	EUR	0.1%	-0.1%	-0.7%	-0.7%
Euro High Yield	EUR	-0.5%	-0.9%	-1.0%	-0.9%
Japanese Government	JPY	0.0%	-0.2%	-0.7%	-0.2%
Australian Government	AUD	0.4%	0.1%	2.5%	3.6%
Global Government Bonds	USD	-0.3%	-0.8%	-3.4%	-2.6%
Global Bonds	USD	-0.3%	-0.9%	-3.2%	-2.5%
Global Convertible Bonds	USD	0.1%	-3.4%	-3.3%	-3.5%
Emerging Market Bonds	USD	-0.4%	-1.9%	-6.5%	-7.2%

Source: Bloomberg. **Past performance is not indicative of future returns.**

Currency returns					
Asset class/region	Currency	Week ending 19 October	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	2.9%	-3.0%	-1.8%	-1.9%
Australian Property Securities	AUD	1.9%	-2.6%	-1.0%	3.6%
Asia Property Securities	USD	0.5%	-5.1%	-10.8%	-9.0%
Global Property Securities	USD	1.9%	-3.7%	-5.7%	-3.5%
Currencies					
Euro	USD	-0.4%	-0.8%	-4.2%	-2.7%
UK Pound Sterling	USD	-0.7%	0.2%	-3.4%	-0.7%
Japanese Yen	USD	-0.4%	0.9%	0.1%	0.1%
Australian Dollar	USD	0.2%	-1.5%	-8.8%	-9.5%
South African Rand	USD	1.1%	-1.7%	-14.0%	-5.8%
Swiss Franc	USD	-0.6%	-2.0%	-2.3%	-2.1%
Chinese Yuan	USD	-0.1%	-0.9%	-6.0%	-4.8%
Commodities & Alternatives					
Commodities	USD	-0.7%	0.0%	4.3%	10.5%
Agricultural Commodities	USD	-0.4%	3.0%	-2.2%	-2.9%
Oil	USD	-0.8%	-3.6%	19.3%	39.4%
Gold	USD	0.6%	2.9%	-6.0%	-4.7%
Hedge funds	USD	0.1%	-2.3%	-3.5%	-2.4%

Source: Bloomberg.

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