

Transcript TMBA459: The State of Bitcoin

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Dan: Yeah, thanks for joining me here at the pod. Bossman, my co host, is on vacation. So, it's just me and you and a special guest. But first, a little bit of housekeeping. If you're listening to this on Thursday, we are hiring an intern/apprentice for the winner. If you want to come join the team, go check out the TMBA blog. And if you want to know about stuff like this, subscribe to the newsletter. We will keep you up to date. So speaking of up to date, today's topic - I'm guessing there are gonna be some of you out there who might roll your eyes, even be tempted to switch off because, let's just face it, let's talk about it. There's backlash about today's topic. But if you're interested in your financial future, and drilling down the nature of markets, how to manipulate them, how to take advantage of opportunities, I encourage you to hang for this one because what we're talking about today, cryptocurrencies are not going away.

So to talk about what's going on in the world of cryptocurrencies, we brought on friend of the show and regular guests, Taylor Pearson, who recently wrote an extremely in depth report called 'The State of Bitcoin in the Fall of 2018', which we will link to so you can get up to date. It made it to the front of 'Hacker News', and there's a ton of interesting takeaways from this report. And we're going to talk about them today, including, you know, how do you value this stuff? What are the methodologies for doing so, what's in the very near future for cryptocurrencies and how are they going to affect our businesses?

We will touch on a broad range of issues, including some of Taylor's thoughts on how cryptocurrencies differ from other forms of investment, how to distinguish the hype from the opportunity and whether and why the Bitcoin backlash is happening.

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Taylor: The peak of prices with Bitcoin, the broader crypto ecosystem happened in late December, early January, and since then, the total value, if you add up the market cap of all these different projects is down something like 80-85%. One of the things I noticed is, my Twitter account tracks the number of new followers I get, tracks very closely to the market. At peak market with the same number of tweets per month, I was getting 5-10X the followers, as bottom of market, presumably tweeting roughly the same quality. I think that's mostly attributable to the price.

Dan: How would you describe this moment in time, September, October, the fall of 2018, where are we in the world of cryptocurrency right now?

Taylor: One of the differences between these crypto assets, crypto tokens, whatever you want to call them is: internet companies were liquid on day one. You

couldn't buy and sell Netscape before it IPO'd, right? So there wasn't this constant market indicator of how is everyone feeling about it. They're also unique in that there's no agreed-upon valuation methodology. So a lot of people in the '90s thought these internet companies were going to be worth a hundred times their price to earning ratio, but they still agreed, this is a company, it has future cash flows, we're going to discount those future cash flows to try to estimate how much it's worth.

Whereas if you look at something like Bitcoin, which is trying to be a form of money, it's like how do you value that? There's no future cash flows. You're not going to earn a return on that, from before, like dividends or something, if you earned a share of a company. So the result of that is it tends to be very reflexive. So everyone gets really excited about it and there's no reason to temper that down.

Dan: Well, in the internet age, you could say, well, pets.com just is this dumb idea, it sucks. Nobody wants to order their kitty litter online or whatever, certainly, if it takes a week to get there. Are there people saying that with compelling thrust about Bitcoin and other cryptocurrencies? Like, "Hey, this is just a bad, dumb, idea that everybody's getting excited about."

Taylor: Paul Krugman, wrote an Op-Ed for the New York Times, Paul Krugman is an economist. He won a Nobel Prize. He's been writing Op-Ed for the New York Times for, I don't know, 20 years or something. He represents this camp with people that were like, this is just a bad idea and this is anti-progress. This is setting money back, our existing money already works better than that. I think the divide I see is, you call it Keynesian and Austrian economics.

Keynesian economics is named after John Maynard Keynes, in a lot of ways popularized after the great depression. Where the lesson from the great depression was, if you start having this recession and you don't expand the balance, you don't increase government spending, that recession gets turned into a depression. What you need to do is you need to find a way to let the central bankers basically manage that. Like what happened with quantitative easing for like Greenspan, who was the chairman of the US Federal Reserve, when he took over like '85 or '86 up to about 2007. That was very much his policy, that as soon as something started to go bad, he would inject money into the system. Bitcoin has countered that, there isn't a central banker that can manage the monetary policy.

Dan: What's the other side of its Keynesian and then ..

Taylor: Austrian. The Austrian economics is a popular school within Bitcoin, it's not very popular within academics. But the figure heads are guys like Friedrich Hayek, and Ludwig von Mises, whose name I might be pronouncing wrong, Murray Rothbard, and their counter arguments that actually, this manipulation is worse than if you just let things play out naturally. But what happens with central bankers is they actually end up making these recessions worse, either one because ... the theory with Keynesianism was, okay, we have these economic cycles and we can use intelligent planning to smooth things out.

Which meant, all right when the recession came, the markets are going down, we would increase the monetary supply, we would inject more money into the system and that would pull the market backup. Then when the market was high, we would increase interest rates to lower the monetary supply and we would pay off that debt we accumulated. But in practice that hasn't actually happened. You can look at the US federal debt levels, basically, every country, Japan, all of Europe, like the debt levels just keep going up, they don't actually have to pay off those debts in the good times.

The deficit went up in the US from 2000-2007, which is like a big bull market, the deficit is gone up from what, 2009 to 2018. So, the Austrian point of view is, “well, one, the Keynesians don't even do what they say they're going to do. Even if they do, it would be worse because actually, they just like exacerbate these cycles and you end up with no one really knowing what their money is going to be worth in the future”. So it's like, the US dollar was worth ... 86% of its value is lost to inflation over the last hundred years, something like that, like a huge amount of money.

So you end up with a lot of what they would call Mal investment. So, this dollar, it's going to be worthless, say in the news tomorrow, so like, I should find something to throw this into and spend a bunch of money on it, even if it's not necessarily a good use of money. So the Austrian School is like you need this, what they call like 'sound money', like gold would be a certain type of sound money where you don't have a central banker, you don't have a state that can inflate away someone's ability to store their wealth. So the Austrian crowd is very popular in Bitcoin.

Dan: Wouldn't that be a little bit counterintuitive then, that the people who want this sound money are going to this most avant garde of options and suggesting that, "Oh, let's do something that has no agreed upon valuation method, that's highly volatile, that's going up and down, and no one can really agree what it's going to be in the future?"

Taylor: So if you were to look at Austrian economics, there's a sub-segment of those that I think what they see in Bitcoin is that: some of the difficulties with a gold are, one, it's easier to confiscate, just because it's physical so it's hard to resist state action. Like if you're in Venezuela, Argentina or somewhere and they say, "We're going to confiscate all your gold", it's easier to find gold than Bitcoin, so it's something that's like digital. So it's harder to seize or harder to censure. It's more transferable, you can send a Bitcoin to someone in Malaysia if you're in Portugal or whatever. Then Bitcoin is more divisible. You can divide it into much smaller pieces. If you want to buy a coffee with your Bitcoin or you want to pay \$50 you can do that, whereas with gold is very difficult.

The broader argument is, “Well, Bitcoin is like gold” and the key property, they talk about there is, this called the stock to flow ratio. Because of the way gold is distributed geologically, in the rocks, it's really hard to mine. So, at most, over the last hundred years or something the most gold anyone's ever been able to mine in a single year or something like 2% of whatever the existing supply is. So you can only inflate at 2% a year just because you can't get out of the ground any faster than that.

Dan: Bitcoin has a similar model, right? You, essentially, you've suggested in your recent writings that, it's well known how much Bitcoin there is left to be mined.

Taylor: Right. There's 21 million that is determined programmatically it's in the protocol and it would be, at this point, very, very difficult to change that. So gold is very mildly inflationary, say like 1-2% a year, Bitcoin is going to be deflationary. It's going to be, literally, zero percent a year, at some point you're not going to be able to make any more of it.

Dan: I know this stuff can be dense. Thanks for hanging in here with us here. I still struggle with this stuff too. But I can report that I am now invested in Bitcoin. I've taken a small amount, very small, less than 1% of my net worth and put it into Bitcoin to see where the stuff goes. I want to be in the game as I'm talking about it with you guys.

And I thought it might be useful to get Taylor to drill down on exactly why he disagrees so fundamentally with Bitcoin skeptic, Paul Krugman. And in doing this, Taylor is going to quote one of our favorite authors Nassim Taleb, author of great books like 'Antifragile' and 'Skin in the Game'. And here Taylor is going to focus on this idea of 'market efficiency'. This refers to the degree to which market prices honestly reflect all available relevant information, which is crucial for us to make decisions about how and where to invest,

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Taylor: So one of Taleb's insights or one of his lines is, "A lot of it looks efficient, isn't actually efficient, it's just hiding risk somewhere." Like you think about what happened in the 2008, the whole mortgage bubble, you could have said in 2006, like, "Oh, no, this is, actually, we've come up with this brilliant new scheme and what we can do is we can help a lot more people get homes and we can take the debt in those homes and we can cut them up in this financial way, and diversify them away.

Actually, what you get is just more people able to own homes and you have a new safe investment vehicle in the form of these mortgage backed bonds." Which, as we found out, was not the case.

What was happening was actually there was a bunch of hidden risk that was built up in that system, because people couldn't understand how it worked, then there's this big blow up. So as it applies to Bitcoin and money, I mentioned earlier that from 2000, 2007, the Federal Reserve was printing money. If you look at the debt to GDP ratio of developed countries, it is trending up and has been trending up for quite some time, roughly since Nixon took the U.S off the gold standard which is a 1973, or the soft gold standard. So it's unclear ...

Dan: How do economists, I mean, I look at these graphs, Taylor, of this deficit issue, we've had a ticker in Times Square since we were kids mentioning how high the national debt is. Are there people who think that this is a non-problem? Is there anybody who thinks the cows aren't going to come home?

Taylor: Paul Krugman. So, Krugman, argument to this would be 'well, this debt to GDP ratio is not higher than we saw post World War Two, which we were able to pay off and it went way back down. So by historical precedent this is within some reasonable range and we'll be able to reduce Federal spending and increase productivity in the economy and gradually pay this off'. So yeah, there's some broader Keynesian school would argue that, this is normal, and like what happened with quantitative easing was the right response.

Dan: Is it fair to say that for a large percentage of Bitcoin investors, they view it as shorting the US dollar, or the US government, or this national debt?

Taylor: Yes, I'd say that's exactly how they view it. They view it as a hedge on the collapse of this central bank system. So their argument would be, "Well, Nixon took us off the gold standard in 1970s, 1973, since then every major central bank in the world has been with some ups and downs, basically printing money and non-stop since then", and the data supports two interpretations. One is Paul Krugman's, just like this is just a more efficient system and this is how money should work and this is the future. One is, "Well, what we've done is we've taken all this risk, and we just pushed it off into the future. At some point, yeah, the cows are going to come home".

For me, that's the narrative around Bitcoin that makes sense that what this is, is you're buying a hedge against this collapse. So, maybe Krugman is right, and everything gets paid down, and it all works out hunky dory. But if he's wrong, I don't know, maybe you own some gold, or some Bitcoin, or you have some other investment strategies that protect you from that.

Dan: Couldn't it be the case that both sides are right, that the very technology that now presents itself is nearly merely a hedge, is the technology that presents the sorts of efficiencies that would allow us to pay down such a deficit?

Taylor: Yes that's interesting.

Dan: Because there's a school of thought that technology is going to come and save the day. It's the same argument I've heard really smart engineers make about the risks presented by carbon emissions. People say "Look, technology is going to come 20 years from now and save this problem". People say it about the economy, "Technology is going to come along. The next internet boom is something we can't even imagine and it will allow us to pay down these debts and maybe it looks something like cryptocurrency".

Taylor: I hadn't thought about that. It's possible. I think one of the things that is different now, it's not clear how significant this is, is that, the drivers of the post World War Two boom we're very geographic. If you were Henry Ford Jr, and you owned the Ford factory, you were locked into Detroit. So, the fact that the tax rates went up to 70% or whatever. You couldn't pick up and move to like lower tax jurisdiction. Whereas, the drivers

now because they're all digital, this is the whole geo-arbitrage, Tim Ferriss thing, but you can imagine this happening on a much larger scale.

The people that would be potentially paying down that deficit are incentivized to not do that, Do you have those people move to Hong Kong, or Estonia, or wherever? So now all of a sudden you have the wealth producers moving away from the countries with the large deficits because, well, you can grow your way out of it but if you can't grow your way out of it even after raised taxes, you have to inflate the money. Which someone with a bunch of money would not like either of those options.

Dan: Since we got into the internet ballgame, we've seen these waves of opportunities come down the pike, particularly, for young people to create a career and a living for themselves. It used to be that starting a small business was a particularly risky, cash intensive endeavor, still can be, of course. But then all of a sudden Google came along, and if you were one of the first people to understand their algorithm, you could make a great deal of wealth for yourself by just being in front of that. Then all of a sudden affiliate marketing came along, then all of a sudden, you name your epoch, like Amazon marketing, and then it was this and that. Does cryptocurrency represent that opportunity in 2018 in the same way that say Amazon was that opportunity in the early 2010s?

Taylor: That's a good question. I think that was, when I started getting involved, that was my thesis. I think cryptocurrency over the long run is certainly one of those things, that's going to provide a platform. There should be lots of businesses built on top of it.

It's not clear to me if that's the case over say like the next three to five years. In a lot of ways cryptocurrency looks like 'cleantech' looked 10 years ago, where everyone agrees on what needs to get built and there's a lot of funding to build those things. Things will get built and they will be good but no one will make any money because the investors all over invested, the entrepreneurs took too much money. And I think also a lot of the bottlenecks in the industry are not 'end consumer bottlenecks'. It's really hard to build the consumer facing dap, a decentralized application. Right now doesn't look very possible. It's possible that changes 12 months from now, it's possible it doesn't change for 10 years.

Dan: So it's almost like what ... what these other platforms did was they offered almost like a consumer level opportunity for entrepreneurs, it sounds like what you're saying, that doesn't quite exist in the cryptocurrency world just now, except for purely being a speculator investor?

Taylor: Yeah, so there was a post that was fairly influential called, it was 'The Fat Protocol Thesis'. The idea was, if you'd been a venture capitalist or investor and you had the choice between investing in Coinbase, which is a Bitcoin exchange, I think, a multi-billion dollar company at this point. It's by far the most successful company in the ecosystem from a venture capital investor perspective. On the day they did their seed round, if you were the earliest investor in that company, or just buying Bitcoin with that same amount of money, you would have been better off just buying the Bitcoin.

So the idea was, these protocols are different than the internet protocols like HTTP or TCP/IP, because they can accrue value. So like, why would you invest in this company on top of the protocol? Because if Coinbase works, then Bitcoin is going to work too. So, I'm just going to buy this underlying thing and whatever happens on top of it, it's fine, because I'm going to have a piece of the action.

Dan: It's almost like getting a chance to become a shareholder in 'Ruby on Rails' in 2003.

Taylor: Right, exactly. At what point is that change? At what point are you better off investing ... Because Bitcoin went from 30 cents to \$6,000, which is a hundred thousand x thing and is Bitcoin going to go for another hundred thousand x over the next eight years? I think it's literally not possible. So at what point of this scale is tipping, and actually this underlying protocol is already really valuable and there's not that much more market for it to capture. But the things on top of it are suddenly really valuable. So I don't know when that point is, it could be anywhere between 12 months and 10 years from now.

Dan: When you pull up the historical price of Bitcoin, we're talking about a relatively short history here. We see a total flat line from 2011 to 2014 where Bitcoins are 10 bucks or less. Then all of a sudden you get to 2014 and Bitcoin jumps up to mid one-hundreds, like 500 to 1000 bucks. Then in early 2017 something completely changes, and now all of a sudden, even with this big bust that you're talking about, we're still looking at a bitcoin price as we talked today at over \$6000. Does the Bitcoin community have a narrative as to what happened? I mean, the price just hung there for years and now all of a sudden we're looking at a six times valuation from where it had stood for years. What's the story you're hearing about what's changed?

Taylor: Well, it goes back to what I was talking about earlier, this idea that it's not just a new company, it's a new type of asset and no one agrees on how to value it. Sort of the way I've heard money explained is, everything we call money as a bubble that has not yet bust. So gold is in a 6000 year old bubble, the actual underlying industrial use of gold represents something like maybe 20 or 30% of its market capitalization. So it has this monetary premium of 70 or 80%, where, just because someone else agrees that there's this monetary premium, you can sell them a gold bar for \$1200 an ounce instead of \$200 an ounce, which is what, just a commodity, it would be worth. So a lot of these cryptocurrencies, that's what these valuations are. People are basically buying an option on this being the future reserve currency of a new ecosystem. It seems reasonable or seems quite possible to expect that 10-20 years from now. This ecosystem as a whole will be worth trillions of dollars, potentially 10s of trillions of dollars, and now it's worth \$300 billion.

Does it happen in 10 years, does it happen in 30 years? Does it happened at all? So there's nothing anchoring the price, there's no underlying like ... gold prices, at least anchored by, it's used in jewelry, it's using microchips, there's actual industrial use for it, whereas this is very reflective. Bitcoin is only worth \$6,000 because a bunch of people that own Bitcoin convinced a bunch of other people that it was worth \$6,000.

There's a commentator in the space who calls this like a ponzi scheme, right? You buy your Bitcoin and then you start telling all your friends about it and they buy Bitcoin which makes your Bitcoin more valuable. So they want to tell their friends about it, which makes Bitcoin more valuable. Which is true but which is also just like, that's how money works. In the case of fiat currencies, like the US dollar ultimately. It's money because you have to pay your taxes, and if you don't pay your taxes men with guns will show up at your house and take you away. But you don't necessarily have to, you can use Bitcoin for your everyday transactions and pay your U.S taxes in dollars if you wanted to.

Dan: Is it fair to describe your recent report, 'The State of Bitcoin in 2018', as review of different ways people are looking at the value of Bitcoin and the ways in which they're attempting to value it? In the report, you lay out a bunch of different ways in the pros and cons of each. In terms of taking the temperature of the value of Bitcoin. Could you describe one of those methods that people are using and one that interest you specifically?

Taylor: I would say the most popular one is something called 'network value to transaction ratio'. So basically, what you're doing is you're just taking the total value of the network, which is \$150 billion or something like that, and you're dividing that by the transaction value. So over 24 hour period, how much money, how much value worth of Bitcoin was sent over the network. The idea there is that as more value is transacted over the network it's inherently more useful. The network effect does play in here.

In order for my Bitcoin to be useful, I need someone else to want to accept that Bitcoin. So the more people that want to accept that Bitcoin, the more that's worth the more valuable it becomes.

Dan: So you're saying like if everybody starts buying their lattes with Bitcoin, by this measure, then the market ought to readjust the value of Bitcoin to reflect that usage.

Taylor: That's right. I think, the more likely scenario than people buying their lattes is you have something like a quantitative easing transfer of Central Bank action. Something like that, some sort of shift in the narrative or people go, "Actually, maybe, the U.S dollar, the Euro, isn't as safest. I think it should be like, "I need to buy, I should put 1% of my net worth in Bitcoin just in case this doesn't work out." If everyone agrees that they should just put 1% of their net worth in Bitcoin, like now Bitcoins is worth whatever \$100,000 and so that narrative, the meme of Bitcoin, like Bitcoin is a virus or bitcoins or religion seems to me like very, very accurate.

Dan: There may be some listeners baffled as to why we bother. Because there's so many opportunities to go build, real valuable businesses that do real things in people's lives, all this kind of stuff. But the reality is that me and you know a lot of people who have, they have made more money in a few weeks or a few years than their entire family had made in generations. I'm curious, what has been like the psychological or

practical fallout in the Bitcoin community and the crypto community amongst early adopters who've become essentially wealthy overnight?

Taylor: So I've met a few of these guys, and I mean, it's fascinating. What's different from this Bitcoin/crypto thing as opposed to collect previous bubbles or financial manias is, the retail money beat the institutional money. So the median person that got rich off Bitcoin was a 26 year old guy who was at some university and he rigged up all the computers in the computer science departments to mine Bitcoin in the background, in 2011 when he was 21 years old, and now that's worth \$300 million.

Dan: It's worth, bringing it down to earth, what about the entrepreneur who because he had some or because she had some crazy customer who requested it in 2014 decided to allow their customers to pay in Bitcoin. That's a very common story that gets told. There's also just the 'on a whim, put a couple grand into it five years ago, because they're smart friends were talking about it'. I mean there's a lot of stories like this coming out of, "Hey, I bought a house, I started a business, I became an investor, I'm a millionaire.

Taylor: What usually happens that those people become the new priests, right. They become the proselytizers that brings in the next wave of converts of parishioners or whatever. There is like a bit of a like one of my dystopian, scary scenarios is like a bit of religious fervor and zeal around, "Now I am vindicated. I knew it was going to work all along".

I guess the other people, the scenarios you played out, I put a few thousand bucks in, I set up my shopping cart to accept Bitcoin in 2014. Most of those people are just like, kind of grateful and realize they got lucky like, "Yeah, I thought this was cool, but like no, I definitely didn't think I was going to make 100 X on my money in three years but, yeah, this is sweet and now I own a house and I don't have to worry about having a house again".

Dan: I honestly think there's a little bit of generational frustration. Tell me if you think I'm off base about this, but I don't hear a lot of these stories coming from like 45-55 year olds, I hear a lot of these stories coming from like 25 and maybe 35 year olds. So it's a little bit of like, "Hey, I worked my whole life and now I got to take lip from you who did nothing but set up a Bitcoin wallet on your E-commerce store," is there a little bit of that?

Taylor: It's definitely generational, the median Bitcoin millionaire is 27 years old or something. I saw somebody tweet a few months ago, it's like the millennial version of Pascal's Wager, to put 5% of your net assets in the Bitcoin, just in case because you never know. Right? Which is true in a lot of ways which is probably really bad.

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Dan: Taylor a few more questions for you, there was an epoch, a mini epoch. Describe for me what the ICO boom was? An ICO is an initial coin offering and I'll describe it first from my perspective and you see if I got it wrong. But essentially the idea

going around over the last couple years was, "Hey, you can launch a cryptocurrency with basically a white paper, which is like a long in depth report that essentially describes what your coin is going to do." So there was this rush in the entrepreneurial world to launch a coin and have a quote ICO, it's like a fast way to have an IPO which can take 10 to 15 years to have an IPO. Why don't you have an ICO, all you have to do is hire a technical writer and a few months down the line ... is that fair to say? I mean, what is this ICO boom?

Taylor: I think that's pretty fair. So what happened, the first ICO, at least that I know of, and it was at least the first like major one was a Ethereum. So I think late 2015, they wrote a white paper describing this technical protocol they were going to build that was going to be a quote unquote, world computer, and allow people to run permissionless applications. They said, hey, it's going to be really hard thing, it's going to take a long time to build these things, so we need to do some fundraising. So what we're going to do is we're going to issue this token and if you buy a token, you're going to own that when the network launches. So they raised something like \$18 million over a few months period.

Dan: So to compare in the case of Bitcoin, they had a white paper but it was like, "If you want Bitcoins you have to go and mine it. So here's how you earn your tokens". Whereas in the case of an ICO, it's essentially a like a Kickstarter. You say, "Hey, I want to go build this thing that you can mine maybe eventually, but first I'm going to need your money".

Taylor: That's right, so that was 2015, Bitcoin had gone from zero to \$400 at peak. In 2013, it was like \$1,000 but around 2015 it was hanging at \$400. You had a bit of this narrative of, "Well if this is like Bitcoin 2.0 and this is the next thing and you're buying in at 20 cents a token, like what happens if it goes up?" And again there's no agreed upon valuation methodology here. There's no discounted cash flow. There's no analysis. It's like, it's all narrative. It's all this meme. That was what happened with Ethereum that went from, it was less than \$1 ICO, I think it was like 20 cents.

Then in early 2017, it jumped very quickly from about 10 or \$20 to maybe \$100. The other thing it did is, it was possible to use a Ethereum to issue other tokens, you could just write a white paper ...

Dan: It became like a platform for people who want to do fundraising for their own technology on top of Ethereum.

Taylor: It was a global fundraising platform and there was one where ... Yeah, obviously there's legal stuff at least, technically, anyone can raise my that you able to write a quote unquote smart contract that said, "If Dan sends me five Bitcoin and I'm going to send him back this many tokens to his address", and people could verify that you're actually going to do that. All the code was open source and so they knew, okay, well, I'll get this piece of many tokens. So then all of a sudden you had this narrative of, well, Bitcoin went from zero to 1000 and Ethereum went from 20 cents to you know \$100 around 2017 and you just saw a lot more of these pile on and pile off. Because now all of a sudden, it was

very easy to do this. There's no way to value these things. And, yeah, it's like you met this random person, that was like, "I put \$2,000 into a gamer token, now I'm worth 2 million bucks. And I think that sort of like fuel mania. So, the ICO boom that happened over the course of 2017 was this idea that: venture capital is over. We've disrupted venture capital with this new ICO fund raising model, where anyone in the world can participate and we're going to rebuild the whole internet and the entire financial system on this new block permissionless blockchain platform and you can own a piece of the future and it's only going to cost you, whatever, a \$1 a token.

Dan: Is this cooling off now or what's happened?

Taylor: The overall market is down about, let's say about 85% as of this time. Bitcoin is down about 70%, and the other ones are down significantly more. So it certainly has cooled off but I think those, over the next, maybe, there's another bubble or whatever. But I think when we look back in 10 years on, some of these are clearly a joke. They're clearly scams, and anyone that's done any research into them knows their scams, but they're still worth a billion dollars. So I think, for me, that's insane.

Dan: A few weeks ago, we talked about what does your city whisper on this program? Paul Graham ends that article by suggesting a good move for young people is to go to the epicenter of wherever good things are happening at a good time. I'm curious if you have a sense for if you want to get involved in cryptocurrency. Where is the in crowd for this stuff? Where are people hanging out?

Taylor: I think cryptocurrency is unique in the sense that, at this stage of its development, like if you want to go back and look at the internet, or social media, or something, there was a clear geographic center. Historically for the tech industry it's been San Francisco, for finance it's been New York, entertainment it's been LA, and there's not a clear geographic center. So I would say, Berlin, New York, San Francisco, Hong Kong, London, there's a few .. Zug Switzerland, which has some regulatory arbitrage that's being done there.

So it seems like the epicenter is less geographic place, and more something like a combination of Twitter and private chat rooms, and a conference circuit. That all the people that are in your thing are going to these three conferences, and we're going to go and hang out and get to know each other and talk about what's going on and then we're all going to hop into these ... a lot of it happens on private chat groups now and talk about whatever the development in the industry and what's going on.

Dan: Taylor, I'll leave you with a hard and potentially illegal question. I don't know if you're allowed, let's not give investment advice here.

Taylor: No, this is not investment advice.

Dan: Let me put you in my boots for one moment. Would you take that Pascal's Wager if you are me? Would you take, right now in 2018, would you take 5% of your net worth and put it into Bitcoin?

Taylor: Yes, if you could take 1%, maybe 2%, maybe 5% I think is fairly aggressive, but something on that order of magnitude. Yeah, I think the probability that 10 to 20 years from now, this broader ecosystem is worth trillions of dollars, potentially 10s of trillions of dollars, is like a reasonable probability. Something like, 20-30%, so if you run the expected value on that, like, "Okay, it's \$300 billion now, it could be worth \$10 trillion, that's 30 x. What other investments are potentially 30X of that time period". You do the expected value, say, okay, it's 30 X, but there's only a 30% chance to actually turn 10X. Well, do you have anything else you can do with that money, it's probably realistically going to earn you a 10X return over the next 10 years. If you do, and you have businesses making five x year, you should put that money into the business, that makes a lot more sense. But for a lot of people, that's a potentially ... if not life changing, like a meaningful financial impact.

So, I think that way of thinking about it, that was how it was initially pitched to me, and that still makes sense. It's a it's an asymmetric payoff where you can make a relatively small investment that's probably worth nothing but may be worth a lot. And if you should have run the probabilities X the potential outcome, it seems like a pretty good bet still in 2018.

Dan: Taylor, I appreciate you swinging by the show, and I hope this becomes a segment. We call it 'Market Watch with Taylor'. Let us know where we can get your report and what the best ways are to follow your information about Bitcoins and cryptocurrency specifically.

Taylor: Yes, the report is on my site that's probably the easiest place to go. My site is taylorpearson.me. If you sign up for the Email list I will send you updates on new reports and articles, and then I spend a sadly huge amount of time of my life on Twitter, @TaylorPearsonMe and I would love to talk to you there because I got lots time. Dan:

Dan: Taylor. We appreciate it. Thanks for coming by.

Taylor: Thanks

Music

Dan: Whether you're into bitcoin cryptocurrencies or whatnot, it's always fun to listen to what Taylor is thinking about. He is so generous with his knowledge. Check them out at TaylorPearson.me, friend of the pod, always looking for excuses to get on the horn with Taylor.

Of course, he's just one of the writers in the space. There are many, many views out there. I don't think we're intending to present a decisive view. We want to hear yours. What do you think about this topic of Bitcoin deserving of the hype or a total snooze fest? Let us know this

will be posted over at Tropicalmba.com/stateofbitcoin and thanks for listening to the show. We will be back next Thursday morning. 8am Eastern Standard Time.

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