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Bitcoin - the New Gold?
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In March 2021, **the total market value of Bitcoin exceeded one trillion dollars** for the first time. In addition, each individual bitcoin recently touched a value of over $60,000 before falling back.

Bitcoin's pullback was precipitated by Federal Reserve Chairman Jerome Powell when he made what was perceived as negative comments about Bitcoin. "Crypto assets are highly volatile — see Bitcoin — and therefore not useful as a store of value. Moreover, they're not backed by anything. Instead, they're more of an asset for speculation. "It is essentially a substitute for gold rather than the dollar." Powell also reiterated the IRS's position that sellers and spenders of bitcoins would be required to report capital gains as though Bitcoins were stock.

To put this gold/bitcoin comparison in perspective, **the total market value of gold in the world is about 10 trillion dollars, ten times the total market value of Bitcoin.**

In this discussion, I'm using the term "Bitcoin" to represent the numerous crypto currencies such as Ethereum and 100 smaller cryptocurrencies, many offering very different features and superior to bitcoin by some measures. Nevertheless, Bitcoin is the most widely known, and Bitcoin's value currently represents almost 90% of the total value of all cryptocurrencies.

## Durability

Gold is an inert element that does not oxidize. Bitcoin is dependent on the internet and all of the decentralized participants in its operation. So, if there is some global catastrophe that destroys the internet, then only gold survives. But for anything less than that, Bitcoin and gold are equally durable. A much more likely scenario is the internet suffering some serious but limited issues and being problematic for days or weeks. Without the internet, all financial institutions would have problems functioning. Some theorize that because of its decentralized structure, Bitcoin might emerge as "the peoples" money in the event of an internet meltdown. Bitcoin is currently preferred in nations like Venezuela and other third-world countries, where the fiat currency issued by the government has become virtually worthless.

## Transferability

You can trade gold on paper if you are willing to assume third-party risk, which defeats part of the purpose of holding gold. To transfer physical gold, you usually need to move it. Large quantities of gold are heavy and difficult, and expensive to transfer securely. Commissions can be excruciating for small gold transactions.

Bitcoin can be sent to another address controlled by somebody anywhere in the world in seconds, and the transfer is confirmed and permanently recorded in minutes. Thus, Bitcoin is infinitely more transferable than gold.

## Divisibility

It is difficult to divide gold, particularly for small amounts. Bitcoin can be subdivided today into 100,000,000 units called satoshis, and the protocol could be extended in the future to support even smaller amounts if that becomes necessary. Bitcoin is infinitely more divisible than gold.

## Scarcity

The scarcity of gold is well understood; in the history of humankind, about 6 billion troy ounces of gold have been produced, 90% of which is estimated to exist still. All the gold ever mined would fit inside a 20-meter cube. The world's supply of produced gold increases by roughly 1 - 2% each year, depending on the metal price and discoveries of deposits.

Bitcoin has a limit of 21,000,000 units, including Bitcoins permanently out of circulation due to lost keys. Changing the rules to allow more units of Bitcoin would require a consensus of users. This is possible, but it is very doubtful that the Bitcoin stakeholders would choose a course that would hurt the value of their assets.

Interestingly, both gold and Bitcoin are produced by "mining." Each has been mined to the extent estimated to be approaching 85 - 90% of the total quantity that will ever be produced. Thus, Bitcoin and gold are both scare commodities.

## Recognizability

Gold can be counterfeited and sometimes needs to be tested for purity. Authentication can be tricky, but not that that difficult for experienced people.

Bitcoin cannot be counterfeited, and it is easy to verify the validity of Bitcoin based on the blockchain, the shared Bitcoin ledger. As a result, Bitcoin is more recognizable than gold, at least among people who understand what a Bitcoin is.

## Taxation

Bitcoins are taxed just like stocks, with a maximum 15% or 20% rate on long-term capital gains (assets held for at least a year). That compares favorably with most other alternative investments. But, as Jerome Powell stated, people who use Bitcoin to make a purchase create a taxable event they have to report.

Gold is taxed as a collectible, and sales do not have the advantage of favorable long-term capital gain treatment. When sold, gold gains are taxed at the individual's ordinary income tax rate to a maximum of 28%. Gold buyers may also have to pay sales tax, depending on relevant state laws.

## Conclusions

Gold and Bitcoin, as different as they are, both have good investment vehicles and sound money characteristics. As more people grow comfortable with Bitcoin and understand how it works, Bitcoin will replace gold as a store of value. This is precisely what we see happening right now. If this continues, some specialists predict the price of Bitcoin in US dollars should stabilize at $300,000 - $500,000, but it's going to be volatile. Any investment with tremendous upside potential also has massive downside risk.

Price is ultimately determined by supply and demand. Demand comes from widespread recognition, a liquid market, and sustained interest. Bitcoin has been unique, achieving a worldwide network in less than 15 years. Other currencies are acknowledging Bitcoin and even inking their value to Bitcoin. The US and other countries are looking into issuing their digital currencies. Individuals and vendors worldwide are beginning to adopt Bitcoin as a payment mechanism and as stored value.

Bitcoin is becoming a valued currency not by force of government declaration or people's acquiescence but by recognition and widespread acceptance.