

2017—The Year of Bitcoin

Chart of the Month - December 2017

In a year of historically low volatility for almost all assets – U.S. stocks, bonds and oil all have hit multi-year low levels of price volatility¹ – bitcoin stands out like a punk rock band at a polka festival. Bitcoin is up nearly 1,400% this year with a high that approached \$20,000². This is a far cry from the half penny (\$0.005) price when the digital currency was being launched in 2009 and a programmer paid \$50 for 10,000 bitcoins³.

Price of Bitcoin² (1/1/2017-12/28/2017)



What is bitcoin?

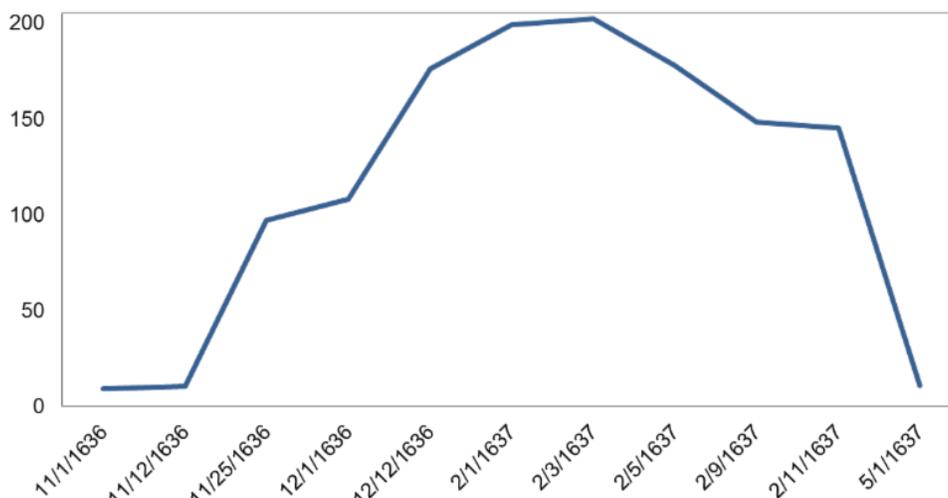
Bitcoin is a digital form of money, known as a cryptocurrency, with no government or central bank involvement. The software technology behind it, blockchain, is essentially a sophisticated spreadsheet that publicly tracks transactions with a distributed ledger. People concerned about profligate central banks, inflationary currencies (Venezuela) or totalitarian governments (Russia) think this is an improvement over their current system.

Gold 2.0 or Tulip Bulb 2.0?

There seems to be a generational divide with younger people, having always lived in an internet-connected world, ascribing value to bitcoin. With a limit of 21 million issued bitcoin, they see it as a viable alternative currency – a gold-like asset they can manage on their phone.

Jamie Dimon, CEO of JP Morgan, characterizes the establishment view when he recently called bitcoin a “fraud”. Many liken bitcoin to the tulip bulb mania of 1637 and suspect the price of bitcoin will soon face a similar collapse.

Dutch Tulip Contract Price⁴ (11/1/1636-5/1/1637)



Our thoughts?

The internet continues to reshape our world and the way we pay each other is evolving as well. Bitcoin is the best known of over 1,300 cryptocurrencies⁵; time will tell if digital currencies have staying power and whether bitcoin will retain its prominence.

In our global asset allocation strategies, we continue to own gold as a portfolio diversifier. As cryptocurrency investment vehicles develop, such as a bitcoin ETF, we will continue to evaluate and consider for inclusion in our strategies. For now, our suspicion is that the 4,000 year history of gold will trump the digital newcomer. Stay tuned.

Market Performance³

Index	November 2017	Year to Date (1/1/17-11/30/17)	One Year (12/1/16-11/30/17)
S&P 500 Index	3.1%	20.5%	22.9%
MSCI EAFE Index	1.1%	23.1%	27.3%
Barclays U.S. Aggregate Bond Index	-0.1%	3.1%	3.2%
JP Morgan Global Aggregate Bond Index	1.0%	6.7%	6.4%
Bloomberg Commodity Index	-0.5%	-1.2%	0.5%
Gold (\$/oz)	0.3%	10.6%	8.7%

1. Curnutt, Dean, "Era of Low Volatility Will Unwind Formulaically", Bloomberg View, 12/4/2017 (<https://www.bloomberg.com/view/articles/2017-12-04/era-of-low-volatility-will-unwind-formulaically>).

2. Data Source: Bloomberg.

3. Wallace, Benjamin, "The Rise and Fall of Bitcoin", Wired, 11/23/2011 (https://www.wired.com/2011/11/mf_bitcoin/)

4. Thompson, Earl A., "The Tulipmania: Fact or Artifact", Public Choice, January 2007, pp. 99-114.

5. Coinmarketcap.com

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