

# Bitcoin is not gold

By [William Fraser](#)

12 Aug 2021

Bitcoin and a slew of other cryptocurrencies are gaining traction as alternatives to fiat currencies as mediums of exchange. But could they also challenge gold as the ultimate store of value?



William Fraser, portfolio manager, Foord Asset Management

To my mind, there are so few similarities between gold and Bitcoin that to compare them seems like a waste of time. Gold is easy to understand. We can see it, feel it, mold it. It has many uses and limited supply. Through the centuries we have accepted it as money and stored it in large quantities as national reserves. Bitcoin is new. It is complex. And it was created out of nothing.

But we should not dismiss Bitcoin's utility as a medium of exchange or a store of value without some (even rudimentary) research and analysis. We should also note that different people have different investment objectives, time horizons and risk budgets. So, there may be diverse conclusions as to its utility. Let me offer mine.



## Is Bitcoin the new gold?

Wehann Olivier 26 Jan 2021



I like gold as a store of value in investment portfolios because it typically shines during times of financial stress. It acts as a safe-haven asset, with a proven track record of preserving and even improving value during market dislocations. It is an insurance policy against government economic mismanagement, which could lead to currency devaluation and rising borrowing costs.

In contrast, and despite its limited supply, Bitcoin has failed as a store of value during times of financial market distress. The extreme volatility of cryptocurrency prices (irrespective of market conditions) suggests demand is for speculative profiteering rather than safety of capital.

## Price history

Moreover, major price falls tend to occur when lending dries up and bank collateral requirements rise meaningfully — forcing leveraged Bitcoin speculators to sell. This tends to happen during times of market dislocation. Thus, while Bitcoin's limited supply might imply a store of value, its price history betrays this promise.

Nevertheless, cryptocurrencies could become an accepted (and legal) medium of exchange—one day challenging the dollar, euro, yen and other currencies as a means of payment. They therefore compete with fiat currencies more than with gold.

But even in this theatre they face challenges. I have already shown that they lack credentials as good stores of value. They also exhibit great variability in demand while supply is artificially manipulated. Finally, cryptocurrencies are not widely accepted as a medium of exchange—only El Salvador recognises Bitcoin as legal tender. This is because governments understandably want to collect taxes in their own currencies.

Bitcoin's extreme price volatility means it fails the test as a currency with stable purchasing power and as a store of value akin to gold. Bitcoin is merely a promise without any economic or fiscal backing. The potential for better cryptocurrencies (including central bank-sponsored crypto coins called Central Bank Digital Currency) means the potential exists for Bitcoin's value to go to zero over time.

## ABOUT THE AUTHOR

William Fraser is a portfolio manager, Foord Asset Management

For more, visit: <https://www.bizcommunity.com>