



Bitcoin – what’s all the noise about?

The news is currently full of stories about cryptocurrencies – about how to become a millionaire overnight, or ‘investors’ selling their home to jump on the bandwagon. In the last year, the price of bitcoin has increased from less than US\$800 to over US\$16,000 (NZ\$24,000) each. Are we missing out, or is this another case of ‘if it looks too good to be true, then it usually is’?

What is Bitcoin?

Bitcoin is one of over 1,300 different cryptocurrencies available on the internet (including bitcoin, ethereum, ripple and litecoin). It is simply a digital form of money, although it is not legal tender.

Bitcoin exists outside of the world’s central banking systems and is therefore not backed or owned by anyone. It can be used to complete transactions directly between users without the delays and costs often associated with international transactions.



Bitcoin Jargon

- ⓑ **Block chain** – a record of bitcoin transactions, like a ledger, which is jointly managed by all bitcoin users with the help of ‘miners’.
- ⓑ **Block** – a record in the block chain containing and confirming transactions taking place.
- ⓑ **Hash** – a digital wax seal attached to a block to verify its legitimacy.
- ⓑ **Mining** – generating new bitcoins by miners solving cryptographic problems using computer power.
- ⓑ **Wallet** – a virtual digital wallet accessible through a private key (code) in which cryptocurrencies can be stored, sent and received.



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Is this a bubble?

The maximum number of Bitcoin is capped at 21 million. Currently 16.7 million bitcoin have been issued.

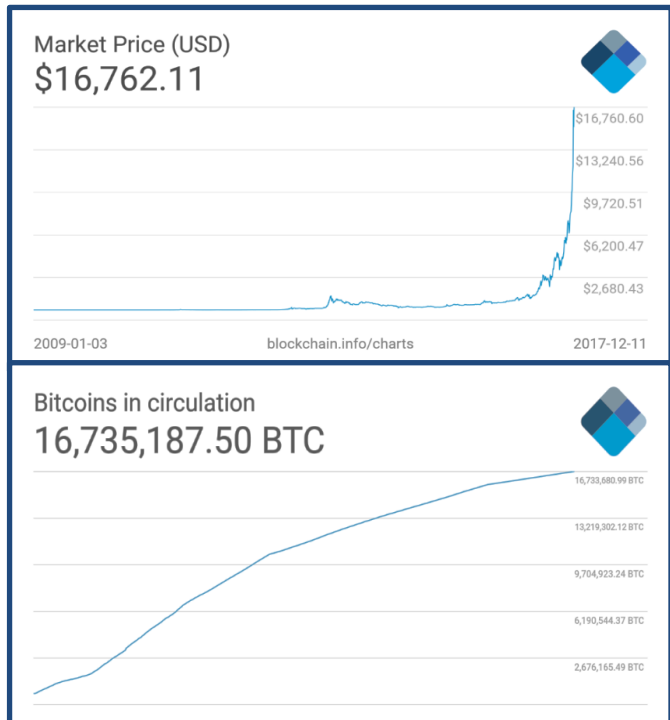
As Bitcoin is mined the supply is increasing. Under normal supply and demand rules, shouldn't the price therefore be dropping? The following charts show that there is no sign of this. In fact, the price is growing exponentially with many commentators asking whether or not this is another bubble, especially when there is no asset or income backing it.

What are the risks?

While many people will be attracted by the quick and easy gains being made, regulators around the world are warning investors to be careful.

Some of the risks highlighted include:

- Regulation - many cryptocurrency exchanges are unregulated and operate exclusively online. This makes it hard to find out who is offering, exchanging, buying or selling it which is especially important if something goes wrong.
- Exchanges are constantly experiencing outages as they try to cope with spikes of traffic and usage.
- Risk - using cryptocurrencies may make you a target for scammers or businesses selling high risk investments, including through new "initial coin offerings".
- Volatility - cryptocurrency values can change quickly, often depending on popularity of that particular 'brand'. For New Zealanders, the volatility is exacerbated by movements in our exchange rate.
- Pricing - cryptocurrencies are not legal tender and no one really knows what they are worth.



In New Zealand, the Financial Markets Authority have received complaints from 'investors' unable to cash out their coins, lost amounts from their electronic wallets, or been locked out of their accounts.

Therefore, our advice is to be very careful – there is a huge amount of hype and speculation with new coins popping up all the time. Prices are volatile, and have been rising exponentially based on hope, greed and the fear of missing out. Hardly a sound basis for a good investment decision, especially when we all know there is 'no such thing as a free lunch'!

Christmas Office Hours

Our office will close for the Christmas break at 1.00pm on Friday, 22nd December. We will return to the office on Monday, 15th January 2018.

As always, we are available on their mobiles in the event of an emergency. If you require urgent assistance, please call and leave a message and they will get back to you as soon as they can.

*Best wishes to you and your families from the Rede Advisers team
Steve, Michael, Guy, Ona and Michael*

