



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

Investments, whether in cryptocurrencies or any other asset class, is more about managing risks than managing returns.

Investing is a long-term activity, one which requires patience, perseverance, and extreme discipline.

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THE BITCOIN-DEBATE STORE OF VALUE, OR 'FOOL'S GOLD'?

By Ruan Breed, Financial Planner at Brenthurst Stellenbosch

The biggest global debate, second to the current 'to-vaccinate or not-to vaccinate', is most probably the argument around the cryptocurrency investment world, and whether Bitcoin is a real store of value or on the other hand, a modern day 'fool's gold rush' which may end in total dismay for many investors.

To attempt writing an article in favour of or in opposition to Bitcoin, is the equivalent of sticking your head into a beehive and hoping you don't get stung. The only difference being that you do not have any protective gear, shielding you from the effects of taking a public stance in favour of or in opposition to Bitcoin.

For many different reasons, as in the vaccination debate, reactions regarding Bitcoin being a prudent investment will differ, depending on who you ask. With further reference to the vaccination argument, where vast amounts of medical knowledge magically come to light next to the braai fires, at family dinner tables and at work, where unqualified people seem to suddenly have more knowledge than medical doctors themselves, one cannot help but feel that, currently, this is where you will also find the "best Bitcoin investment advice" - for free!

However, many investors who had Economics 101 will be quick out of the blocks to tell you there is no such thing as a free lunch, and immediately start to shoot bullets through your uncle's pro-Bitcoin investment advice. Who on earth dares to criticise this well researched investment advice, especially if this specific investment gave your uncle an incredible return on investment of 105% over a one-month period?

Allow me to share a small pearl of wisdom, one which is not pro or anti Bitcoin, but rather agrees with the statement that "*There is no such thing as a free lunch*".

I tend to disagree with the aforementioned, and firmly believe that the only free lunch in the investment environment is diversification.

As cliché as this might sound, herewith the reason:

Without delving into technicalities as to how Bitcoin is mined, stored and traded, the focus is on whether Bitcoin, as individual investment, presents any real underlying value (as part of a well-diversified portfolio), or if it will, more likely, leave many investors with sleepless nights and squandered capital.

STORE OF VALUE

In the history of the [Gold Standard](#), before Fiat currencies (\$/£/€) became the international means of trade, gold was used to define the value of a currency such as the dollar. In short, gold was simply used as a 'store of value.' With the gold standard, countries agreed to convert paper money into a fixed amount of gold. A country that uses the gold standard, sets a fixed price for gold and buys and sells gold at that fixed price. In other words, products are valued at in terms of gold.

Furthermore, gold also offers physical value as this precious metal is used in the production of luxury big ticket items at the high value market end, such as jewellery. Thus, the physical attributes of gold lends underlying value to this precious metal. It is tangibly visible and puts a sparkle in its owner's eyes.

Many investors state that Bitcoin is the new digital gold, providing a store of value for the owner of this currency. I am not one of them. The main reason this argument is put forward is because there is only a maximum number of Bitcoin that can be mined. **Ever.**

In other words, it once again comes down to Economics 101 – supply and demand. Since there is a fixed supply of Bitcoin, an investment in Bitcoin will treat its investors well if there is a surge in demand for this cryptocurrency, even though I feel Bitcoin has no underlying/intrinsic value itself. It cannot be held or seen, and as opposed to gold, it might rather leave its owners teary-eyed. Intrinsic value is the value placed on an asset based on various assumptions and calculations and is usually linked to the utility of the underlying products that a company delivers to the market.

Bitcoin, in my opinion, has no intrinsic value. The price fluctuations in Bitcoin are mainly as a result of supply and demand, even though other factors are also at play. In contrast with a precious metal such as gold (which serves as store of value AND has physical use in products), Bitcoin has no physical utility in any way.

CRYPTOCURRENCY REGULATIONS

Another drawback for investments in the crypto environment is the lack of regulatory frameworks. In most countries across the globe, the cryptocurrency investment world is still largely unregulated and the only legal tender in the South African landscape remains limited to banknotes and coins. In our terms, cryptocurrencies are therefore not regarded as money. This alone proves to present a big downside to investments in cryptocurrencies.

The unregulated environment in cryptocurrencies has also opened doors for a lot of scammers and schemes to exploit many investors who chase the mouth-watering carrot which has been dangled in front of their noses, without doing any due diligence on the legality of the investment being proposed. It might still be too soon to even mention a platform such as MTI Trading in the South African crypto landscape, and I am relatively positive that a few 'Ooms & Tannies', who were full of praise for this platform and investment have been left with more questions than answers. If it is too good to be true...



There is a saying:

A good advisor tells his clients where to invest their money, but a great advisor invests his client's money alongside his own. This quote should incline an investor to determine the advisor's tendency to take on Bitcoin/cryptocurrency as an investment for himself, and thereby a lot of an investor's questions and concerns might be answered.

INFLATION/UNCERTAINTY HEDGE

Exposure to gold has long been used as a hedge against long term inflation and uncertainty in markets. It is regarded as a safe haven in times of low or no growth environments, and investors normally rush for gold in difficult investing circumstances.

Gold has an extremely [long-term track record](#), against which certain analysis and conclusions can be made. Cryptocurrencies are still in their infant phase and shouting from the sidelines that 'crypto is the new gold' is a shot in the dark! As previously stated, one aspect that both Bitcoin and gold puts on the table for the investor is diversification. This remains the ultimate hedge against inflation, difficult market conditions and low growth environments. Remember another Economics 101 lesson regarding having all your eggs in one basket?

By taking all the abovementioned factors into account, not excluding your uncle's coveted crypto advice, the million-dollar/Bitcoin question remains to be asked:

SHOULD I ALLOCATE CAPITAL TO CRYPTO INVESTMENTS

The common denominator amongst all investors is to achieve maximum return with minimum risk. Risk appetite remains the biggest consideration factor in this case. We already drew the conclusion that Bitcoin (as gold) offers diversification to an overall investment portfolio. One fact which no crypto pundit can argue against, is that Bitcoin is an extremely volatile and risky investment.

When trying to determine whether you should include Bitcoin in your portfolio, first and foremost determine your own risk appetite. No one else knows you as well as you do yourself.

Investments, whether in cryptocurrencies or any other asset class, is more about managing risk than managing returns. Always remember that, more often than not, your risk tolerance is not as high as you might think and, therefore, only take a position in an investment such as Bitcoin extent to which you feel comfortable as far as your risk appetite goes.

BEWARE WHO YOU TAKE ADVICE FROM

Everyone is an expert with the virtue of hindsight: There are a lot of 'crypto-investors' on both sides of the spectrum, both have realized significant gains, as well as hurtful losses. Tread lightly in taking investment advice from anyone because you might be taking advice from someone who cherry-picked Bitcoin as an investment and had Lady Luck on his/her side and bagged huge profits in a short period of time.

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Therefore, if and when you decide to expose your portfolio to Bitcoin, I regard the following as very important:

- **Positioning is key:** Never allocate more capital to these types of investments than you are willing to lose.
- **High risk investment:** If you expose your portfolio to cryptocurrency, it should form part of your high-risk end of your portfolio.
- **Always invest in assets and businesses you understand.**
- **Beware who you take advice from.**

Never compromise your hard-earned capital in search of [inflated short-term gains](#). Too many people have burnt their fingers by following this approach. **Investing is a long-term activity, one which requires patience, perseverance and extreme discipline.** Do not slaughter your hen which is supposed to lay golden eggs in the future, in search of short-term performance. Most of us have previously seen the outcome.

For now it still seems that the best Bitcoin investment advice is still to be found from relatives and friends around the dinner table. And by taking a conservative and well-informed approach to crypto investing, they might just be able to say, 'I told you so.' Whether Bitcoin will lead to the modern-day digital gold rush, remains to be seen.

RUAN BREED IS A FINANCIAL ADVISOR AT BRENTHURST STELLENBOSCH

Phone: 27 21 882 8706 | Mobile: +27 82 551 3299 | Email: ruan@brenthurstwealth.co.za

(BCom. Fin Science | CIMA | PGDip Investment & Portfolio Management)



Ruan joined the Brenthurst Wealth Team in 2021 as an advisor/paraplanner and currently works under the direct supervision of Sonia du Plessis and André Basson in our Stellenbosch office.

He obtained his BCom (Financial Sciences) degree at the University of Pretoria in 2018. Consequently, he also enrolled with CIMA (Chartered Institute for Management Accountants) as a prospective CGMA candidate and will complete all the relevant CIMA exams.

He is also currently studying towards his Diploma in Investment Management at the University of the Free State.

Ruan's previous experience includes "tax and advisory" at Crowe Tax and Advisory Services in Stellenbosch.

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