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- Will bitcoin remain number one?
- It's not about cryptocurrency
- Will IOTA eat everything?

Usurping the crown

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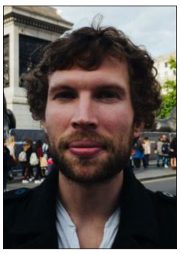

In the time between our first issue and today, a lot has happened in the world of crypto.

- Sentiment seems to be changing for the better.
- More major institutions are legitimising crypto.
- Goldman Sachs is setting up a crypto trading desk.
- HSBC is in crypto trials with UBS.
- The crypto market cap is up by \$100 billion, to \$377 billion.
- Ether has announced the amount required for staking will be 32.
- And IOTA has unveiled Q.

And those are just some of the stories to come out in the last month.

Crypto continues to move on at a rapid pace.

At times like this, it's important to remind yourself that most of this money is still built on hype.

The real-world adoption is happening. The financial institutions are getting on board. Industry is taking note. And many cryptos are "proving their concepts".

But it's still all very fragile. As we've seen over the last month, the crypto market cap has fluctuated between \$270 billion and \$470 billion. Whenever it seems to be approaching that \$500 billion level again, it inevitably drops back down and we start the slow climb again.

It seems like everyone is waiting to see if the recovery is real, or if it's all built on glass.

Since January, discussion in crypto circles has gone through a transformation. From hype, ecstasy and invulnerability, through to anger, depression and despair.

And as the recovery has begun, it's left people really questioning their investment decisions.

When everything is going up,

it's tempting to start throwing money at projects you don't really believe in, simply because they are rocketing.

It's only when the market inevitably crashes again that you reassess and do the real research you should have done in the first place.

In the last bull run from November last year to mid-January, many people piled into projects that had no promise, simply because they had crypto gains to burn.

One weekend in early January, at the peak of the bull run, I decided to do the same.

I read up on all of the coins in the top 200 that I wasn't familiar with and decided to move about 5% of my portfolio into a few of them.

I convinced myself I was doing it because I had found some opportunities that I'd missed earlier in the year. But in reality, I was getting sucked into the hype.

The next day I had "a moment of clarity". I was getting careless with my gains and traded back out of all but one of those cryptos.

A week or so later the January crash happened. And I was glad I only had money in cryptos I really believed in.

Market corrections are like hangovers. They make you seriously evaluate your path in life.

And just like when you're hungover, you can choose to mope around, resigned to your misery. Or you can look at the decisions you made that got you into this mess and learn from them.

That's what crypto investors have been doing over the last few months. Taking a long, hard look at their holdings and diving into the research. Getting rid of the hype coins and concentrating on cryptos that have true potential.

And that has left many people questioning the crypto at the heart of it all: bitcoin.

Bigger than bitcoin

Bitcoin was the one that started it all. But does that mean it will always reign supreme?

That's the question we're dedicating this month's issue to. It is perhaps the biggest question in crypto. And it is an important one for every crypto investor to ask.

In the run-up to mid-December, it seemed like bitcoin was going to crush all the other cryptos on the market.

This run from $5,000 to $20,000 only took around two months.

It may be "old tech" in terms of crypto. But that didn't seem to matter. It had the network effect and the brand name.

It was sucking all the money out of other cryptos. The more money it sucked out, the more people sold their positions from altcoins (an altcoin is any crypto that isn't bitcoin) and bought bitcoin.

After all, why would you put your money in a risky project if bitcoin – the safest crypto of them all – was doubling in price every month?

But then, right at its peak, the altcoins started to surge. Between December and January, many altcoins went up hundreds, or even thousands, of per cent.

Ripple and Nano's (then called RaiBlocks) runs in particular were incredible.

On 9 December Ripple was trading for $0.25. By 4 January its market price was $3.66. That's a 1,364% gain in around one month.

Nano was even more impressive. On 1 December it was priced at $0.22. On 2 January it was selling for $31.63.

That is not a typo. You can see the figures for yourself at coinmarketcap.com/currencies/nano.

Nano gained 14,200% in one month. That would turn £100 into more than £14,000. In one month.

Even the king of altcoins, Ethereum, went up by 231%. It went from $430 to $1,424 between 7 December and 13 January, more than tripling investors' money.

Of course, we all know what happened next. The great crypto crash of 2018.

Right now Nano sits at $5.67, Ripple at $0.69 and Ethereum at $714.

As I always stress, price surges and price crashes like these are par for the course in crypto. Imagine seeing your initial investment go 14,000% in a month... but then imagine seeing those gains shatter just as quickly.

This is why you never put more money into crypto than you're happy to lose. If you're investing money you actually need to live your life, you will end up in a very bad place.

Now, to get back to the story. While these surges upwards were happening, bitcoin was floundering. The money that had flowed into bitcoin from October to mid-December was now flowing out into altcoins.

Bitcoin's market cap dropped from $326 billion on 17 December to $170 billion on 7 January. And its price dropped from around $20,000 to just over $10,000.

Over the same time period, the overall crypto market went from $596 billion to $825 billion.

New money was coming into the market, and old money was leaving bitcoin. All of it was flowing into altcoins.

And because there is much less money in any given altcoin to start with, a much smaller amount of money is needed to move its price.

That's why we saw those phenomenal altcoin gains from mid-December to mid-January.

People who were "in it for the tech" rejoiced at seeing superior technology grab the spotlight. No longer was it just about bitcoin and its alternative currency, it was about the whole alternative system.

It was about the new world computer, the new paradigm, the new internet.

At least, that's what people told themselves. After the crash, people weren't so optimistic.

But that didn't mean the "superior tech" believers weren't on to something.

First movers or fast followers?

A lot of people don't realise this, because it feels counterintuitive. But many of today's tech giants were not trailblazers but "fast followers".

Facebook was far from the first social media platform. Myspace and Bebo were out for years before Facebook launched. And they were hugely popular.

In 2008 Myspace had more visitors than Google. That didn't stop Facebook crushing it in the end.

Google wasn't the first search engine. When Google launched there were hundreds of other search engines. Yahoo, AltaVista, Ask Jeeves, Lycos... they all lost out to Google's superior tech in the end.

Apple's iPod was not the first mp3 player. And the iPhone was not the first smartphone for that matter. Again, that didn't stop these products destroying the competition.

Given that the world of crypto is at the cutting edge of technology. Given that in crypto new innovations and new ways of doing things are coming out every day. How long can first-mover advantage really last in such a place?

Just like the tech giants of the past, could bitcoin also be overtaken by a fast follower? Let's take a look.

Why bitcoin is #1

If you're reading this, you'll probably already know the history of bitcoin. So I'm not going to dwell on it too much. You can have a look at my first issue for more on bitcoin's history.

Bitcoin was the first peer-to-peer cryptocurrency that worked well. For a long time it was the only real game in town, and many people would argue it still is.

Why? Well firstly, bitcoin has unparalleled security. Much of the time there is a trade-off between speed and security in crypto. Bitcoin may be slow by current crypto standards, but it is also incredibly secure.

Bitcoin is also the most recognisable name in crypto. Your average person on the street has likely heard of bitcoin, but barely anyone has heard of any of the other top 100.

As a "brand" it's instantly recognisable. It's also by far the easiest crypto to buy in most parts of the world.

Bitcoin is also the crypto by which all other cryptos are priced. This has knock-on effects for every crypto you own.

Most cryptos can only be bought using bitcoin. Say you want to buy crypto x (not a real crypto, it's just an example). In order to get crypto x, you need to first buy bitcoin and then trade it for crypto x.

Right now, most crypto exchanges work this way. Bitcoin is the "base pair" not dollars or GBP.

So, let's say crypto x is trading for 0.5 bitcoin. And bitcoin is worth $10,000.

Bitcoin then crashes to $5,000. Crypto x is still trading for 0.5 bitcoin, but that 0.5 bitcoin is now only worth $2,500.

This is a very simple example, but that's basically how it works.

That's why when bitcoin crashes it takes everything down with it. When there are more "on-ramps" into crypto, it won't be such a problem.

However, the fact bitcoin is a base pair isn't the only problem. There is also psychology to take into account. When people see the bitcoin market crashing, they know what's coming for all the other coins and start to sell them too. This is self-perpetuating.

So it's going to be hard for the market to break free of bitcoin's chains, even with more base pairs becoming available.

So bitcoin is:

- Arguably the most secure crypto out there
- By far the most established
- Has the strongest brand recognition
- The easiest to buy and sell
- Fairly easy to use compared to most cryptos
- The most stable crypto.

And because bitcoins is the most recognisable and established crypto, it's also the one that traditional financial firms favour.

Bitcoin was the first crypto to get futures contracts – which many people equate with its run from $5,000 to $20,000… and then back down to $8,500.

It is most likely to be the first crypto exchange-traded fund (ETF). For years entrepreneurs have tried to get a bitcoin ETF going. Each time the regulators have said no. But each time it gets a step closer to reality. There's every possibility we will see a bitcoin ETF before the year is out.

So bitcoin has a lot going for it.

In terms of a payment or currency crypto, the only real disadvantages bitcoin has are:

- Low transactions per second (TPS) – around eight
- The colossal amount of energy it takes to mine
- Its large fees, which make sending small amounts pointless.

However, as bitcoin's Lightning Network comes online, this will vastly improve its TPS – Lightning Network claims "millions to billions" – and vastly reduce its fees.

Lightning Network will also allow for recurring payments, which is vital if you want to sell a service through bitcoin.

Mining will still take up a lot of energy, however. And this energy usage will always be a thorn in bitcoin's side.

In terms of a pure payment crypto, it's hard to argue there is a better one than bitcoin

What do you want in a payment crypto?

- Security
- Ease of use
- Ability to use in many different places
- Speed.

Low or, preferably, no fees.

In all these areas bitcoin is, or soon will be among, the best. And because there is also so much money in bitcoin, you also have the added benefits of brand recognition and futureproofing, to some extent.

Bitcoin has been declared dead 294 times according to 99bitcoins.com/bitcoinobituaries. And every single time it has come back stronger.

Given all this, in terms of a payment crypto, I don't think there are many better.

You could argue that something like Nano – which is a directed acyclic graph (DAG) crypto – is a much, much better pure payment crypto. And in terms of tech, it certainly is.

Nano is:

- Feeless – send 0.01p of Nano to your friend and that's what they'll get
- Instant – payments go though in seconds, not minutes or hours
- Scalable – on current hardware it can run around 7,000 TPS
- Energy efficient – it doesn't use miners to secure the network. So its energy footprint is, and always will be, tiny.

And it achieves all this in a "pure" way. It doesn't need a convoluted new network to get to this state. It was coded from the ground up to be the best pure payment coin out there.

I hold Nano myself and I think it is great tech. But even if its tech is better than bitcoin, it will find it hard to overcome bitcoin's "first-mover advantage".

Once Lightning Network becomes fully functional, from an end-user's perspective, bitcoin will do everything Nano can.

It doesn't matter that it isn't doing it in an elegant way like Nano. It will work as well as it needs to, and it will maintain its massive brand recognition.

There's a new show on Netflix called *Fastest Car*. Every episode they pit a supercar against three "sleeper" cars in a ¼ mile race.

A sleeper car is a car that looks slow, or downright old and shabby, but has been souped up.

I see bitcoin as one of these old bangers that has been souped up to compete with a new world of superior cryptos.

It's not as elegant. It's not as pure. It rattles and its paint is falling off. But it has been tinkered with so much that it can almost hold its weight against the latest and greatest.

And given its huge name recognition, and the amount of money that is already in it, I don't see it being overtaken by another payment crypto any time soon, if ever.

Personally, I'm not selling my Nano yet. But I'd say bitcoin is a better bet.

That begs the question. Will bitcoin remain the number one crypto?

It's not about cryptocurrency

This is a hard no from me.

That may seem a little strange, seeing as I've just spent 1,000 words explaining why I believe bitcoin will remain the number one pure payment coin.

But that's just it.

A pure payment coin is not going to remain at the top of the crypto food chain.

Yes, bitcoin may be a great currency, but it's not much more than that. It's not a platform.

Personally I don't own bitcoin. Well, I do. I have some from when I first looked into it in 2013 – about 10p worth. But I never saw it as world-changing.

It was only when I heard about Ethereum that I immediately saw the potential of what blockchain could do. This was when I started obsessively researching every day.

People will tell you the "safe approach" is to put most of your money in bitcoin. That was true a year or so ago, but I don't believe it is any more.

Logically, it doesn't make sense to put most of your money into a crypto that has so few possible applications compared to something like Ethereum.

But then, crypto doesn't run on logic – which is ironic, given that its code is pure logic. Often inferior cryptos rise while superior ones fall. That's the nature of the market.

I can see the emotional arguments for investing in bitcoin – a big "screw you" to the system – but logically, I don't see it having the potential of any of the leading platform cryptos I wrote about in my first issue.

I don't even see it as a question of if bitcoin will be usurped, but when.

So then the question becomes, will it be a good thing or a bad thing when it happens?

Would it be good for bitcoin to be usurped?

On the one hand, it will help to displace crypto's criminal image. Even though a very small proportion of money laundering and criminal activity is paid for with bitcoin (you can read this report by the European Commission if you'd like more clarity on that), it can't fully shake its criminal image. With a new crypto at the top, grabbing all the headlines, perhaps crypto could finally go mainstream.

Also, the mere fact that there was a new crypto at the top would draw huge interest from the press and investors alike. There would likely be a flood of new money entering the space.

Some people would see this as bad – the same people who blame the current correction on "weak hands" and "n00bs". But they probably wouldn't be complaining while the prices shot up.

However, when bitcoin is usurped, it will also cause a lot of uncertainty and volatility. No one will know where they stand any more.

And once bitcoin's spell has been broken, it will show that the top spot is attainable. We could see number of different cryptos taking the number one position then getting usurped themselves.

That's the way I see it going. We will either see a constant swapping of the top spot, or one crypto will completely run away with it.

Either way, it will bring a lot more money into the market. And if you have your money in the crypto that takes the top spot, it could mean you'll make multiple times your initial investment.

So to sum up, I believe bitcoin will maintain its spot as the top payment crypto, but that won't mean it has the top spot overall. The top spot will be filled by a platform crypto.

Right now my bet is on Ethereum. Take a look at my section ranking Ethereum in issue one to find out why.

Now before I go, I couldn't write this month's issue without elaborating on IOTA's Q announcement.

Will IOTA eat everything?

Earlier this month IOTA announced its long awaited Q project.

You can watch IOTA's video about Q for yourself here.

The main takeaway is that Q is going to enable smart contracts, oracles and outsourced computing on IOTA.

It's hard to convey how big of a development this is. It could be game-changing for the entire crypto industry. Actually, not just for the crypto industry, but for the whole world.

In the video you can see IOTA being exchanged directly for fiat currency. This combined with smart contracts and oracles would mean people could pay for services in IOTA without ever having to buy IOTA. It would all happen behind the scenes.

This would bring the tech benefits of crypto and the ease of normal fiat money together.

I've seen people claiming this could mean IOTA can do everything that any of the top 100 cryptos can now do – and all without wasting energy on mining.

Whether it actually will or not, we'll have to wait and see. It's not even clear if that 3 June date will be a full release, or just another announcement.

But what is clear is that with the release of Q, IOTA will become a real contender for that number one spot.

Could IOTA become the one crypto to rule them all? We'll have to wait and see. But I doubt all the other major cryptos will go down without a fight.

Until next time,

Harry Hamburg
Editor, *Crypto Wire*

PS I'd be interested to hear your opinions on bitcoin retaining its number one spot. Email harry@southbankresearch.com and let me know. I'll use your reply like a poll and post the results in next month's issue.

PPS What about privacy? Isn't that supposed to be one of bitcoin's main selling points – anonymous transactions? Well, that's what a lot of people think. But those people would be wrong. Bitcoin is actually a terrible medium to use if you want privacy. To find out why, you can read my *Exponential Investor* article on the whole bitcoin privacy debacle here. It's free, and you'll also find out about the undisputed king of privacy crypto: Monero.