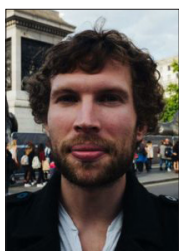


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Tokenising the world

Harry Hamburg, Editor



"The future is already here – it's just not evenly distributed yet."

This is a quote from William Gibson, the famed science fiction writer who coined the term "cyberspace".

His argument is that different parts of the world and different people get access to technology at different times.

For example, later this year, New Yorkers will be able to pay their subway fares with contactless bankcards or contactless apps on their phones. In London, we have been doing that for a few

years already.

I remember as a kid in the 1990s seeing all the amazing technology that Japan and Korea had and waiting years for it to make it to the UK.

Of course, today technology makes it around the globe much faster, thanks to... well, technology. But a new development still doesn't blanket the globe all at once.

We can use this knowledge to gain a massive insight into the near future.

Just as today's telescopes let us see millions of years into the past, communication technology

lets us see into the future.

By scouring the internet for tech developments around the globe, we can make accurate predictions about what will happen when those developments become more evenly distributed.

Nowhere is this more evident, and more potentially lucrative, than in the world of crypto.

So for this month's issue, I have turned my eye towards regulation and institutional interest.

People often ask what regulation will mean for crypto, how institutions will enter the market



and what will happen when they do.

Once you dive into the research, you discover regulation has already happened. Institutions have already entered and markets have already shown how they will react.

By finding the stories and connecting the dots, we can draw a fairly accurate image of what is coming.

We don't need no regulation

Crypto has a strange relationship with institutions and regulators.

On the one hand, it was created for the purpose of doing away with the banks, middlemen, government cronies and parasitic financial institutions.

On the other, all these things will flood the market with money, which crypto investors like.

So, although you still have a strong core of crypto enthusiasts that are vehemently against any kind of regulation or institutional intrusion, you have many more who would welcome it... so long as it makes them money in the process.

Like any new technology, first it is taken up by people on the fringe – the innovators as they're called.

At this point, it's like – to borrow an overused cliché – the Wild West. There are no rules to follow because the rules are still being set out.

Then come the early adopters, the early majority, late majority and lastly the laggards.

The majority – as you may expect – have more traditional views and impose their values on the new technology. However, they are also influenced by the culture the new technology has already set up.

So you end up with something that's not as lawless as it was at its inception, but not as traditional as other tech cultures that came before it. A balance is reached and it progresses from there.

You see this all the time.

A good example of this is when music went digital.

In the early 2000s people started storing music as MP3s on hard drives, rather than on CDs or records.

This led to file sharing over the internet on Napster and other programs. It became hugely popular and inevitably drew the ire of the music industry.

The traditional institutions reigned in the tech pioneers. And the tech pioneers challenged the traditional institutions to change. What we got was something in the middle.

Eventually, a new music culture was created that borrowed from both sides. And so today most of us listen to their music through streaming services like Spotify.

A very similar thing happened

with streaming films and TV. Sky now bundles Netflix with its subscription packages, while Blockbuster is dead and buried.

Regulatory interest in crypto is a sign that it is coming of age. It's no longer just the domain of the innovators, it's ready for the mainstream.

And anyway, we'll always have [Monero](#) for those who want to keep crypto completely private, uncensored and unregulated.

To be clear, I don't think all crypto will become "legit", but the vast majority of it will. And I think that will be a very good thing in the end.

Here's why.

Regulation doesn't necessarily mean what people think it means

There are two ways you can look at regulation.

You can either see it as institutions wanting to clamp down on crypto. To make it less democratic, less open and less free.

Or, you can see it as institutions wanting to get in and get their clients' money into it, but in a way that doesn't break any laws or open them up to lawsuits.

From everything I've seen so far, and from the evidence I'll show you today, the latter seems to be much closer to the truth.

Just as with previous tech movements, these two cultures



will influence each other.

Regulators and institutions will open up the opaque world of crypto to the mainstream. And crypto will open up the world of finance to smaller players, make it all run much more democratically and much more efficiently.

And in the process, the price of crypto will explode.

This may sound overly optimistic, but it's not. In fact, it's already happening.

The first big move from the institutions came in the form of bitcoin futures contracts. Many people point to this as being the reason behind bitcoin's meteoric rise at the end of last year.

After the announcement of bitcoin futures by the Chicago Board Options Exchange (CBOE) bitcoin's price went from \$6,000 to \$20,000 in just over a month.

This was the first taste crypto got of what "institutional money" might mean for the market.

Of course, we all know what happened next. Bitcoin crashed, then all coins crashed. At first many people blamed this crash on people shorting the futures market and then making those shorts come true.

This may have indeed been the case. But there was a lot more at play than just futures contracts. We had the [Mt Gox disaster](#) to contend with too.

Why a bitcoin ETF would be a big deal

Bitcoin futures were the first step. But the real money is in exchange-traded funds (ETFs). Over the last few decades ETFs have come to define personal investing.

People have had it drilled into them to invest in the index, not in individual shares. And not to pay massive management fees to invest in funds that fail to beat the market.

I'm sure you've seen some of the stats: only about 1 in 20 actively managed funds beat the market.

So why would you pay a fund manager to make you less money than you could with a passive ETF?

Needless to say, people like ETFs. They allow people to invest in things that can traditionally be hard to invest in – for example an index – and for absolute minimal fees.

When you think about it, ETFs are the perfect vehicle for ordinary people to invest in crypto.

Most people won't go to the effort of holding crypto themselves. Sure, they may want to invest. But they certainly aren't going to spend weeks learning the ins and outs of wallets and exchanges.

People like us – early investors in crypto who've gone to the trouble to learn how all this works – are an anomaly.

Most people won't even think about investing until it's as simple as buying an index-tracking ETF is.

And let's not forget that you can put ETFs into tax-free accounts. If there was an ETF available that held the actual cryptos I want to invest in, that's how I'd do it. That way you can invest through an ISA and not pay any tax on your capital gains.

Last year JP Morgan [released research](#) showing that there is about 50 times less money in crypto than the market cap would suggest.

In fact it worked out that the ratio of cash inflow to market cap in crypto is about 50:1.

So even at crypto's peak this January, when the total market cap was around \$800 billion, there will only have been around \$16 billion actually invested.

(I explained this in detail in my "Curse of Mt Gox" essay in March. You can read it [here](#) if you missed it.)

If we compare that to the \$6.7 trillion held in ETFs, according to Morning Star's annual fund flow report, we can start to see how much impact a crypto ETF could have.

Even if the crypto only captured 1% of the ETF market, using JP Morgan's 50:1 ratio, that could lead to a crypto market cap of \$3.3 trillion.

So over four times the peak we saw in January.



This is why a bitcoin ETF would be such a big deal. And we'll know if we're getting one on 10 August.

Mark this date: 10 August

In mid-June the Securities and Exchange Commission (SEC) concluded that both bitcoin and Ethereum are not securities.

This announcement then led to two very big developments.

1. According to CBOE Global Markets president Chris Concannon, it "clears a key stumbling for Ether futures, which we've been considering since we launched the first bitcoin futures in December 2017."

So we can expect to see Ethereum futures launching at some point this year... and remember what happened when bitcoin futures launched...

2. It cleared the way for the CBOE to apply to create a bitcoin ETF.

Currently the SEC is reviewing the application. It asked for the public's opinion on the potential listing and was flooded with comments from the crypto world urging it to approve.

Whether all those comments will have a positive or negative effect on the SEC's decision waits to be seen. But it will be announcing its decision on 10 August.

This could be the date when crypto goes haywire. If the ETF

gets approved, we can expect to see major moves happening in the days following the announcement.

The SEC has denied applications for bitcoin ETFs in the past, citing a lack of regulatory clarity. Well, now we have that needed regulatory clarity.

However, that doesn't mean the SEC will approve the ETF. As many commenters point out, it could make a major headache for the SEC down the road, and the SEC has nothing to gain by approving the application.

So, at this point, it's all up in the air.

I should also point out that this ETF would not be open to retail investors. It would only be for accredited investors, with massive amounts of money to spend. However, it would inevitably open the floodgates to more open ETFs.

Even if this ETF isn't approved, it's clearly just a matter of time until one is. The CBOE is pushing hard for a crypto ETF, and sooner or later it's likely to get what it wants.

Coinbase's Custody program is also now in full swing, and bringing big money into the crypto market, as I wrote about in [this issue](#) of *Exponential Investor*.

But in the long run, even crypto ETFs will be superseded by what's coming.

The bitcoin ETF is just a distraction from crypto's endgame - complete and utter tokenisation

When people think about the impact computers have had on industry, they usually think about the FAANGs.

That is, Facebook, Apple, Amazon, Google and Netflix. Those five companies do a good job of summing up how computer technology has changed our lives.

But before Apple released the iPhone, before Google made its search engine, before Amazon had shipped a book... computers had already come to define one very important sector. The stockmarket.

27 October 1986 has become known as the stockmarket's "big bang".

This was the day computer trading was introduced to the London Stock Exchange. And it changed everything.

As Computer Weekly wrote in 2007:

Just before the Big Bang's meteoric impact, the average number of daily trades at the London Stock Exchange was 20,000, amounting to about £700m worth of shares changing hands. After the introduction of automated trading the figure went up to a daily average of 59,000 trades a few months later.

In 1987 the London Stock



<i>Exchange was transacting as much business in a month as it did in a whole year before 1986, with an average daily value of £1bn. Today, the average daily number of shares traded is 566,000, with an average daily value of £16.6bn.</i> <i>These figures would be impossible to reach without technology that can reduce the time taken to complete a deal and handle massive volumes.</i> As the excerpt says, computer trading meant people could now carry out as many trades in a month as they had previously done in a year. The big bang “brought significant benefits to both institutional and private investors, with private investors gaining low-cost independent access to the market through the proliferation of new services,” said Robin Paine, chief technology officer at the London Stock Exchange. It forever changed the practice of investing and opened it up to a whole new world of people. Once the stockmarkets of the world “go crypto” it will have a similar impact. It will let people from all over the world invest in any asset they want, at any time of the day they want, and with as much or as little money as they want. Trading stocks will be just as quick and easy as trading cryptos on an exchange.	When stocks are tokenised, they won’t have to be sold in lots of one. Just as you can buy a fraction of a bitcoin, you’d be able to buy a fraction of a share. So, say you wanted to invest in Berkshire Hathaway’s class A shares, but didn’t have the \$288,500 it costs to buy one share, it wouldn’t matter. You could buy 0.000001 of a share if you wanted. And it won’t only be stocks you can trade, it will be the ownership of anything. From shares in property, to shares of classic cars, to shares of antiques, diamonds, planes, land... everything. I already explained how this process could work with smart bonds in <i>Crypto Wire</i> issue one: • <i>A company creates its own token on the blockchain.</i> • <i>That token has smart contracts built in that mirror how bonds currently work.</i> • <i>Investors can buy the bond directly from the company, and later through an exchange, or by trading with other investors. It is like any other crypto.</i> • <i>The smart contracts in the token give its holder a set pay out every six months (or at whatever interval was chosen).</i> • <i>This pay-out is pegged to the dollar and not to the price of the crypto. So crypto market volatility doesn’t affect it at all.</i>	• <i>Then at the end of the set term the smart contract then pays out the principal, also pegged to dollar value, not crypto value.</i> This would be a very similar process for tokenising stocks and other assets. And remember those trials of smart bonds have already taken place. As I wrote in issue one: <i>One of the biggest banks in the world, UBS, conducted its first smart bond trials using cryptos back in 2016. Here was its conclusion:</i> <i>This experiment validated our initial assumptions on smart contracts and virtual currencies, and confirmed the applicability of these logics across our use cases.</i> <i>It also confirmed the potential benefits for our clients, the regulators and our organization: clearing and settlement on blockchain could be faster, more efficient and transparent while reducing settlement risk and operational cost.</i> Make no mistake, tokenising stocks and bonds would absolutely revolutionise finance. It would be like “the big bang” on performance-enhancing drugs. And, of course, it would propel crypto prices into the stratosphere. Still, it’s just a pipe dream,
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though, right?

Wrong.

Switzerland's stockmarket is being tokenised right now

Remember that William Gibson quote from the beginning of this issue?

"The future is already here – it's just not evenly distributed yet."

Well, the future is here, and it's already being tokenised – in Switzerland.

Here's what a press release by SIX said on 6 July.

Switzerland's stock exchange – owned and managed by SIX – today announced that it is building a fully integrated trading, settlement and custody infrastructure for digital assets.

It went on (emphasis mine):

*It will be the first market infrastructure in the world to offer a fully integrated end to end trading, settlement and custody service for digital assets. **The service will provide a safe environment for issuing and trading digital assets, and enable the tokenization of existing securities and non-bankable assets to make previously untradeable assets tradeable.** Following an agile approach to meet the needs of today's dynamic environment, the first services will be rolled out in mid-2019.*

*The service will be mainly based on Distributed Ledger Technology (DLT). **The implementation approach will provide a bridge for clients from the traditional to the new world,** in a timeframe which allows clients to choose for themselves how*

and when to avail themselves of the new opportunities the new ecosystem provides.

You can read the release for yourself [here](#).

It's actually happening, a major country is tokenising its stockmarket.

And it's only a matter of time until this future becomes distributed to other countries around the world.

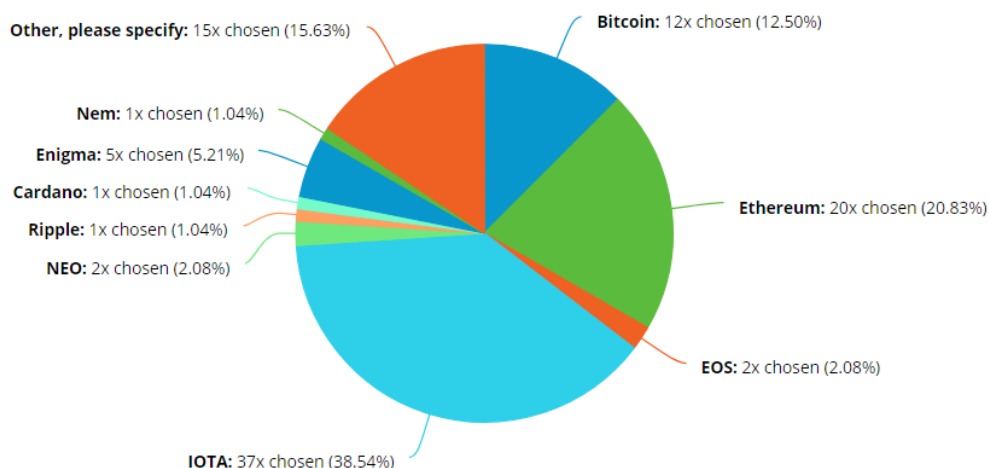
Like I said earlier, by connecting the dots we can predict the future. And the future is complete and utter tokenisation. Crypto will eat the stockmarket. Crypto will eventually eat everything.

It may take a while. There will be stumbling blocks and fightbacks, but in the end the world will run on crypto. It is inevitable.

So while prices may be down

Which crypto do you think has the most potential to change the world over the next three years?

Number of responses: 96



from all-time highs right now, the future of crypto is looking bright.

Survey results

At the end of last month's issue, I asked you for your opinions on my big question: which crypto has the most potential to change the world over the next three years?

Well, the results are in (see chart on previous page).

As you can see, IOTA is leading the way with around 38% of the votes, followed by Ethereum with around 21% and "other" takes third place with around 12%.

Of those "other" votes, Stellar Lumens was most popular, accounting for around 8% of the total votes.

If I'd given Stellar Lumens its own category (which in all honesty I intended to do, but I

just forgot) it would probably have rated even higher.

So I'd say third place is really a toss-up between bitcoin and Stellar Lumens.

Personally, I'm not sure if it will be IOTA or Ethereum that makes the most impact in the next three years. But I think it will be one of the two.

I think IOTA is better tech, but Ethereum has more network effect.

However, if Volkswagen launches cars with IOTA wallets in 2019, as it has stated it will, then IOTA surely has to be the favourite.

Here is a tweet (see below) by IOTA's co-founder Dominik Schiener confirming Volkswagen's commitment in June.

So scheduled for early 2019 we

have:

- A potential bitcoin ETF
- The Swiss stockmarket switching to crypto
- Volkswagen cars powered by IOTA.

It's looking like next year could go on to break even 2017's crypto percentage gains.

For this month's survey, I'm asking you the simple question: will all stockmarkets eventually run on crypto?

You can vote [here](#). Remember, you don't need to leave any personal details to vote, not even a name or email address.

Until next time,

Harry Hamburg
Editor, *Crypto Wire*



Živan Tešić @zivantesic · Jun 12

Hey Dom it's true that Volkswagen will use Iota for the first product in 2019?



1



5



32



Dominik Schiener

@DomSchiener

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Yes! They said it live on stage. They're right now working to get it rolled out early 2019.

10:20 am - 12 Jun 2018

42 Retweets 158 Likes

