

## Bitcoin: What Investors Need to Know

**Tim Mullooly:** Welcome back to the podcast. This is episode number 205. A little different this week, we have three of us here in the room. This is Tim Mullooly and I have Tom and Brendan here with us today.

**Tom:** Hello.

**Brendan:** Happy to be here.

**Tim Mullooly:** We started in the last episode, 204 if you missed it, you can go check it out on the website, but we started, the last question was about Bitcoin. It's pretty much the only thing people have been talking about for the last couple weeks.

I'm sure if you followed any of the news headlines, you've seen the price skyrocketing. We figured today would be a good time to discuss our thoughts on Bitcoin, especially since we've been getting calls from clients asking if they can own Bitcoin in their retirement accounts and other accounts, as well.

We just wanted to give our thoughts on Bitcoin and what's going on with that.

**Tom:** We've had a conversation about Bitcoin almost every day for the past few months in our daily meetings. Now we're starting to get these calls, as Tim mentioned.

We don't want to be condescending, but we also thought that we would walk through some of the talking points that an individual investor ought to know before they consider whether Bitcoin is right for them.

There's a lot to talk about, so we appreciate your patience as we roll through this topic on Bitcoin, which at the moment is trading at \$15,600 a coin. I believe last night, it traded at \$19,000. This is going to be, as Tim mentioned, a little more of a freewheeling conversation.

The three of us have talking points. Casey's not with us today, but we've all had different talking points based on conversations we've had with clients, based on things that we have observed, and we just want to share a few of these with you.

I think the first thing that folks need to know, we appreciate you calling us and asking us our opinion on Bitcoin. As financial planners for our clients, that is the role that we should be filling.

One of the things, though, that most people don't yet understand is that you cannot buy Bitcoin through a brokerage account.

You have to open an account at Coinbase and I believe Coinbase is now crashing the App Store because it's being downloaded more than anything else, more than Words with Friends or Scrabble or, what was the other one, Pokémon Go.

**Brendan:** I actually think that that is a helpful way to mentally segment where Bitcoin falls on the spectrum of things. While it's related to money, so we're happy to get these questions, it isn't a part, nor do I see it being a part, of any kind of investment allocation that an advisor is going to do for their clients.

This is a vehicle for pure speculation and while to the layperson that may seem like something that belongs with stocks, that couldn't be more opposite of an investment portfolio that's helping somebody to reach goals in the future, that kind of thing.

**Tim Mullooly:** Right. One of the things that I had written down was that Bitcoin, right now, it's a trade. What we do here at Mullooly Asset Management is not trading for people.

We're more focused on long-term investing and building allocations in their portfolios that are geared towards saving this money, building it, growing it for retirement, part of a greater financial plan, and right now Bitcoin is a speculation trade.

We're not traders here. It really doesn't fit in well with what we do.

**Tom:** At the moment, we're recording this on December 8th. At the moment, there is one way that I'll get to in a moment, but there really is no easy way to own Bitcoin through a brokerage account.

I think that stops a lot of people, a lot of calls that we get, right? It stops a lot of people right at the gate that we can't own this through your brokerage account. You actually have to open an account at a site like Coinbase and put money in an account, and then buy it.

You really are on your own when it comes to this. There is one way that you can get a piece of the action with Bitcoin through a brokerage account, and it's by owning an open-end fund from Grayscale.

The symbol is GBTC, but we would really caution people to purchasing that for a couple of different reasons.

**Brendan:** Yeah. Each share of this trust gets you a fractional amount. I think it's .09 Bitcoin per share of this trust. This trust, if you actually do the math, when it's trading the average is usually a 42% price premium to the actual exposure to Bitcoin that you're getting.

In terms of owning it, I think that if it's something that somebody wants to speculate in, that's not really the vehicle that I would choose for it, nor do I think anybody's IRA or brokerage account needs to have an allocation to this.

That's just mindboggling to me.

**Tom:** There's a few other things, just from a more hands-on perspective. It's an illiquid trading vehicle. It trades about 80,000 shares a day. Not a lot of volume in this. If someone with a

large position shows up and wants to sell their shares of this, it's going to go down like it did the other day. It went down about \$500 in price in a matter of minutes.

This is going to be all over the place. This massive premium that Brendan just mentioned, there have been times where the premium to the net asset value has been over 100%. I know there's a disclaimer before we start these podcasts, but let's throw a blanket over all of this.

Like Tim mentioned, this is total speculation and really not suitable for most of our clients. I think the other thing that a lot of folks, they compare this with gold and they compare it, of course, with speculation.

But there is no intrinsic value when it comes to Bitcoin. It has the same fundamentals as it did when it was \$1.00. There's no cash flow from this, there's no earnings from this, there's no fundamental value to Bitcoin.

**Brendan:** There's no way to manage a position in Bitcoin. Even if we did think that we should own this for clients, there's no way to manage this. It's a lottery ticket, and if somebody wants to speculate in it on their own time, that's great.

I'm happy to discuss with somebody how much money they can afford to speculate in Bitcoin with without blowing up their financial plan.

If I can help them do that and it allows them to scratch their itch on their own because they feel that they need to be a part of this, I'm not going to tell them they can't.

But we're certainly not going to put it into client accounts here because there's literally no way to manage this.

Like Tom said, there's no form of analysis that we can use on this kind of an investment to tell you, "Yeah, you should own this" or "No, you shouldn't own this" or why. There's no reasoning whatsoever.

**Tim Mullooly:** The only thing that people are basing their buying and selling for Bitcoin on right now is the price appreciation, and Brendan said it a number of times. We're talking about Bitcoin right now, but it honestly goes for any kind of stock or ETF or mutual fund.

If you're basing your decision to buy it just based on the price going up a lot recently, that's not enough evidence, in our opinion, to put your hard-earned money into that. There needs to be more evidence.

You need to have more of a reason to buy it and put it in your allocation, in your account.

**Brendan:** You need to understand it. This is something that I'm trying to learn more about as information comes out. It's an interesting topic and I want to be informed so we can discuss things with our clients, but this isn't even something that I feel like I fully understand at this point.

There's certainly plenty of information out there for those that are curious, but again, like Tim said, if you have no understanding of Bitcoin or how it came about or what its purposes may be in the future, no thesis whatsoever other than the price is up a lot, that's never a good investment thesis, no matter what kind of vehicle we're talking about.

**Tom:** That's right. I think if your plan or reason for going into Bitcoin, to summarize what you both have just said, is if your plan is to buy it and sell it to someone at a higher price that is not a plan. That's gambling, pure and simple.

**Tim Mullooly:** Yeah, that's the difference between trading and investing.

**Tom:** I think that we're going to see even more volatility, like we haven't seen enough. We're going to see more volatility in Bitcoin very shortly because next week, the US exchanges are going to open up futures trading on Bitcoin.

Part of the reason why we're seeing a lot of volatility in that Grayscale fund is because it's now not going to be the only way for US investors to get into this. But when we talk about things like Bitcoin, people talk about the future and they talk about the promise.

Who is using Bitcoin right now? Who uses them? There was some commissioner in the European Union who said it very well. He said, "The people who want to use Bitcoin are people who want to evade the rules. They want to stay in the dark."

Think about the people who are involved in the Bitcoin business right now. Who's using this as a currency? There's not too many generally accepted businesses that are using Bitcoin.

They're all talking about it, but there's no one who's actually using it right now. In some ways, it reminds me of in 1997 and 1998 when all of these big companies started adding .com to the end of their company name because they thought, "Well, we're going to be on this thing called the internet soon and that's going to add a massive amount of business to our bottom line." It just never really happened.

**Brendan:** It's an interesting comparison that I've heard before, too. I think to remember with that is that people were actually right about the internet being transformational technology.

They were right, but they still lost all of their money in the meantime because they were right, but they were early and the methods that were being used to invest in the internet as technology then, lots of them didn't work out.

All the stocks we joke about now, like Pets.com for example, these have become punchlines to jokes but it's not as if they were wrong in their thesis that the internet was worthwhile technology that was going to change the world.

We don't know if Bitcoin and the block chain is going to end up being transformational technology or not. But in terms of whether this is an investment or just pure speculation, it's pure speculation at this point.

Whether or not the technology works out, I have no idea. There may be uses for it that we can't even imagine right now and I'm not going to sit here and speculate on those.

**Tom:** I think we all agree that there is going to be Bitcoin in our future, probably. I think, though, that the way this has run up in price and the massive speculation, the frenzy that's going on right now is out of control, what's going on.

Tim, there's a chart that was in "The Wall Street Journal." I know I tweeted it a couple of days ago.

We should probably put it in the show notes about just showing the parabolic ascension of the price of Bitcoin compared to what housing prices did 10 and 12 years ago, what the .com explosion did years ago, and then they compare it to Bitcoin and most times you read these charts from left to right, but the price for Bitcoin is just a straight line up the left side of the chart. That would be a good one to link to.

**Brendan:** Keeping this all in mind, it's human nature to see something like this and be curious, be interested, and maybe feel like you're missing out a little bit on something, but what I would say is if you're talking about your neighbors, your friends, people you know, they probably don't own this, either.

You're not really missing out that much. Just remember that that's a natural human instinct, but it doesn't mean that you need to act on it. It's okay to feel that way.

I don't think it's okay to act on emotions like that when it comes to investing and hard-earned money that you're most likely going to need in the future.

**Tom:** Something else that I'd like to share before we wrap up. In "Bloomberg Business Week" with today's date, December 8th, that there's an article about the Bitcoin whales.

It turns out that the author wrote that 40% of Bitcoin is held by less than 1,000 people. I have to use air quotes when I say "asset," but this Bitcoin is held by very few people. I think it was ... we'll have to look up and see who said this, but basically when so few people own the market, you are the market.

The thing to remember is that Bitcoin today is not a regulated security. There's no rules like insider trading.

There's going to be the risk that these insiders can collude and say, "Let's not sell until we get to a certain price, and then we're going to sell all together." It's going to be rife with rumors.

There's going to be stories about Bitcoin being stolen, about fraud, about theft. There's going to be a lot of things going on with Bitcoin while it remains an unregulated security.

It really is buyer beware. Right now, it's a sexy topic to talk about. But we have to be really careful. Our clients hire us to help them get to the end zone in terms of their retirement so they've got money to live on in the future.

We are still grasping with getting a better full understanding of Bitcoin and how it might fit in for our clients at this point. It's really, really hard for us to see any reason why we would recommend a client getting involved in something like this.

**Brendan:** Yeah. I mean, if somebody wants to speculate on their own, like I'd alluded to earlier, happy to help them come up with an amount that they can afford to lose, like money they would take to the casino and put it into something like this with the understanding that it could be gone tomorrow and it's no big deal in terms of their financial plan and their future.

But absolutely not something that warrants or needs an allocation in a serious investment portfolio, because I don't think that's what it is at this point.

**Tim Mullooly:** Tying in points that Tom and Brendan just brought up, just the way that this thing has skyrocketed straight up.

**Tom:** Where was this a year ago?

**Tim Mullooly:** It was a couple hundred dollars, I think. But something to keep in mind, we talk about how markets fluctuate all the time. They go up and they go down. This has gone straight up.

Again, we have no idea what's going to happen in the future. It could continue to go straight up, but it could also go down. Like Tom said, it's not regulated right now, whereas markets, if there's a crash in the markets there are circuit breakers in place to stop trading.

That's not the case in terms of Bitcoin right now. You could see a significant drop in Bitcoin in one day or over the course of a week.

There's not really anything in place to regulate that drop or stop it like a circuit breaker would in the real markets. Just keep that in mind, as well.

**Tom:** There's something else that we'll say in closing. We've talked about this in the office. If we told clients to buy Bitcoin and it goes down, we look really foolish, like we're taking risks. On the other hand, if this thing goes straight up, well, good for the clients. They made some money, but probably not enough to really change their lives. We're in a

pickle, so to speak, where we can't recommend this. We're really having a hard time getting the full understanding of this, but it's one of these things where from the advisor's side, if you buy it for a client and it goes up, well, great.

The advisor thinks that the client got lucky. Client thinks that it was their idea. If it goes down, the advisor wears all the responsibility that comes with that because it really is an unsuitable transaction for 99% of the investing public.

It's a tough spot, not only for investors but for advisors, too.

**Brendan:** Yeah. I think, again, the underlying feeling on all of this is driven by feeling like everybody is out there getting rich without you. I thought, as you were saying those numbers, 40% of this is owned by 1,000 out there in the world.

Yes, there are other people who have made very real money "investing" in Bitcoin, speculating in Bitcoin. That's great for them. But it's not as if everybody on your street at home has Bitcoin and they're all worth millions of dollars now and you're just some loser who didn't do anything.

It's almost the exact opposite, in fact. Don't feel pressured into speculating in something because you feel like you're missing out. That's not a reasonable way to make decisions.

**Tom:** Hope this has been helpful.

**Tim Mullooly:** Yeah, this was a pretty good discussion on our feelings on Bitcoin. Hopefully you took some good points away from it. If you are going to speculate in Bitcoin, I would just say do your homework and try to fully understand as much as you can at this point what you're putting your money into.

Again, hopefully you got something good out of this episode That's going to do it for episode number 205 and we'll see you next week on episode 206.