

A BULL VS. BEAR DEBATE ON BITCOIN

Jeremy Schwartz — Global Chief Investment Officer
03/02/2021

Last week's Behind the Markets podcast featured a debate on the merits of [Bitcoin](#) with Alex Pickard, VP of Research at Research Affiliates, and Jason Guthrie, Head of Capital Markets and Digital Assets for WisdomTree Europe.

Pickard said he first got into Bitcoin during his financial engineering graduate coursework at UCLA in 2013, but he really gained conviction to go [long](#) in 2015 at around the \$500 price level. He turned a windfall profit into a startup enterprise to mine Bitcoin further.

Pickard's experience mining led him to become much more [skeptical](#)* about the [cryptocurrency](#), however. The areas Pickard highlighted as risks include:

1. The use case and narrative have shifted. Pickard was attracted to the possibility of using Bitcoin for transactions, and the democratization of the financial system. He is frustrated by the large transaction fees on the network and ultimately expects the [blockchain](#) technology that will dominate payment transactions as the one that can handle the most capacity at the lowest possible price.
2. The possibility that Tether is a factor driving Bitcoin prices. Tether is a stablecoin that helps facilitate digital transactions. There are many questions, however, over whether Tether has fiat currency assets to back up the coins in circulation, and there is no transparency about its assets. While lawsuits in New York around Tether's activities were just settled, there is a correlation between Tether activity and Bitcoin prices that lead to questions about the drivers in Pickard's mind. If Tether were to collapse, and this is pure speculation, that could negatively cascade throughout the crypto space.
3. Pickard questions the "store of value" narrative (traditionally associated with fiat currencies) for an asset that is as volatile as Bitcoin. Pickard wonders how Bitcoin can be a store of value with the size and severity of [drawdowns](#) it has experienced.
4. Pickard referred to himself as a 'big-blocker' and prefers Bitcoin SV, which is a forked version of Bitcoin that allows for much larger transactions blocks and fosters cheaper transaction fees. Bitcoin SV has not captured the hearts and souls of the crypto community, but is one that Pickard likes over the longer run.

Guthrie is more optimistic about Bitcoin and feels we are still relatively early in the adoption cycle. Guthrie's narrative centered on:

1. Many are worried about all the money printing around the world leading to a drop in the value of fiat currencies. The fixed nature of Bitcoin supply means it cannot be devalued in the same way fiat currencies can, which is a rationale similarly applied to gold. Bitcoin being the new generation's gold has a lot of appeal as an investment story.
2. Guthrie believes there is merit to Bitcoin being a [store of value](#). They cannot be easily counterfeited, nor can new ones be created easily, and they must be easily transferrable and durable. The next step is getting people to desire these assets en masse, which is happening right now with Bitcoin.
3. Rising prices come from new investors, who are driving up prices with insatiable demand. We are relatively early in the institutional allocation curve, in Guthrie's view. What started as modest Bitcoin adoption by small, nimble family offices for wealthier clientele is becoming more serious, with larger private banks, institutions and pension funds expressing newfound interest.
4. Guthrie believes there are methods to facilitate Bitcoin transactions 'off chain' that get around the transaction fee concerns of Pickard. While Pickard remains worried about the cost of transacting in Bitcoin, Guthrie feels that even for cross-border remittances, the prices are actually rather reasonable.
5. Guthrie also is less concerned about Tether and thinks any other stablecoin could be substituted for it as the default stablecoin on the [Binance Exchange](#), particularly one that has fewer questions about the credibility of its asset base.

Guthrie argued the rise in cross-market correlations to really high levels makes a low correlating asset like Bitcoin enormously valuable from a portfolio [diversification](#) perspective.

Beyond the declining value of fiat currencies, Guthrie see the blockchain's potential to disrupt traditional financial assets, like banks making Bitcoin and other cryptos a catchall '[hedge](#) asset' for disruptive technologies.

What you often hear in Bitcoin pitches is unbridled optimism. This was a nicely balanced conversation on the pros and cons of the new asset class. You can listen to our full conversation below.

Behind the Markets on Wharton Business Radio · Behind The Markets Podcast: Alex Pickard

Important Risks Related to this Article

* This article has been written by third parties not affiliated with WisdomTree or any of its affiliates. No information contained in the material has been endorsed or approved by WisdomTree, and WisdomTree is not responsible for the content. No information accessed through this material constitutes a recommendation by WisdomTree to buy, sell or hold any security, financial product or instrument discussed therein. This information neither is nor should be construed as an opinion regarding the nature, potential, value, suitability or profitability of any particular investment or investment strategy, and you shall be fully responsible for any investment decisions you make, and such decisions will be based solely on your evaluation of your financial circumstances, investment objectives, risk tolerance and liquidity needs.

Jason Guthrie is an employee of WisdomTree Ireland Limited, a European subsidiary of WisdomTree Asset Management Inc.'s Parent company WisdomTree Investments, Inc.

For definitions of terms in the blog, please visit the [glossary](#).

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Bitcoin (the currency) : A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Long (or Long Position) : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

Cryptocurrency : a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.

Blockchain : a distributed ledger system in which a record of transactions made in cryptocurrencies are maintained across computers linked in a peer-to-peer network

Drawdowns : Periods of sustained negative trends of return.

Store of Value : An asset that maintains its value over time without depreciating.

Binance Exchange : a cryptocurrency exchange

Diversification : A risk management strategy that mixes a wide variety of investments within a portfolio.

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.