

A Bull vs. Bear Debate on Bitcoin

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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:

5. 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.
6. 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.
7. 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.
8. 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.
9. 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 Podcast: Alex Pickard

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