

CRYPTO ADVISOR – ISSUE 2-2

January 12, 2018

Caution: Trade or otherwise act on the information in this report at your own risk.

Cryptocurrency News

“Meltdown” and “Spectre” are the names of **malware bugs** that exploit security vulnerability in computer chips. Meltdown affects all devices with Intel chips, i.e., 90% of desktop and laptop computers. Spectre has an even wider reach, affecting Intel, ARM and AMD chips in any kind of device. Safeguards against these viruses—which were [discovered 6 months ago](#)—include storing your cryptocurrencies in a hardware wallet, and not blindly trusting your computer to keep your data private.

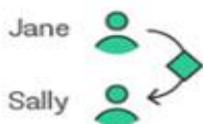
Texas **securities regulators** issued a Cease and Desist Order against UK-based BitConnect, ordering it to cease operation in Texas, and [opening the door](#) on the ability of sub-national regulators to easily affect the regulatory landscape. As if the environment needed more complexity!

One **cause for concern** that’s been widely reported is that [40% of all bitcoins](#) are in the hands of just 1000 investors, who therefore have the power to crash the market. Bloomberg covered a suitable technique to defuse this situation—which an owner of 275 BTC just employed at LedgerX, using call options.

How Blockchain Works for Bitcoin

When payment is made with a physical coin, the person who handed it over can’t spend it again. Preventing “double spending” in a digital currency is more complicated.

Transaction



Jane uses bitcoin to buy a cup of coffee at Sally’s internet café, using her private key to transfer ownership of the currency.

Mining network



Word of the transaction is sent through the bitcoin network to “miners” with powerful computers.

Block



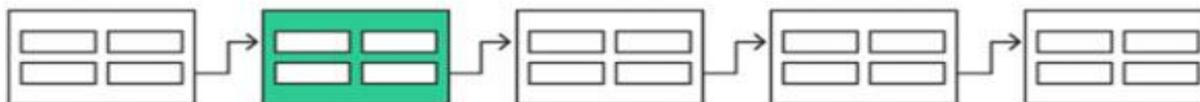
Miners use trial-and-error computations to solve a puzzle created by combining data about recent transactions. The first to find the unique number that unlocks the puzzle earns the right to bundle the transactions into a confirmed batch known as a block.

Verification



The winning miner is rewarded with newly minted bitcoin – but only after other miners confirm that the block’s transactions don’t contain any attempts to spend the same funds twice.

The Chain



Blockchain acts as a public ledger showing all transactions, though the identities of participants are obscured. Each block has a cryptographic link to the previous one. Every addition of a new, linked block to the chain makes it harder for a rogue miner to steal Sally’s bitcoin by rewriting the sequence of transactions.

Source: Bloomberg

BloombergQuickTake

This process assures that there’s no chance of a Bitcoin being spent twice. That solves the trust angle.

Second, the blockchain provides an incentive to miners by rewarding them with Bitcoin. This creates a free and eager army of people and entities to do the computationally (and energy) intensive work of confirming blocks of transactions.

More on what gives cryptocurrencies value. 10,000 years of history shows that new technologies gained value by making the world more productive. Presently, cryptocurrencies represent a new technology that is challenging the way we do things. Cryptofinance, for example, has the revolutionary ability to [disrupt the financial industry](#). And this transformation has just begun...

Bitcoin has value because you can do things with it. Just as a shovel's value comes from what it can dig, Bitcoin's value comes from its ability to help you do two things: [transact and save](#). Currently, BTC is not a practical means for buying a cup of coffee, but is an excellent choice for handling financial transfers and transactions requiring anonymity or non-reversibility. Its ability to preserve capital appears superior, but at this point the future is murky.

Martin Armstrong tackles Bitcoin's identity question by noting that "economically speaking, anything that can be exchanged to facilitate a barter transaction becomes a [medium of exchange](#). Cryptocurrency is the next transition" of money from tangible items to electronic means.

Bitcoin is NOT in a bubble that's going to burst. The current drop (which was anticipated) is not the beginning of the end, but more like the end of the beginning. Despite a 1500% surge last year, very few people own bitcoin and even fewer understand it. An estimated 30 million bitcoin wallets belong to about 10 million owners. Only an estimated 3 of those 30 million contain more than \$1000 in bitcoin and only 1 million contain more than \$10,000 in bitcoin. The total value of all cryptocurrency holdings is about \$800 million, just 0.3% of the [\\$233 trillion](#) of global debt.

Does that sound like a bubble? Matter of fact, rather than a bubble in cryptos, perhaps what we're witnessing is a hyperinflationary collapse of fiat government currencies against a "perfect" currency?

"Blockchain" (the term) has been working retail magic. Examples: (1) after Long Island Iced Tea (which manufactures iced tea and lemonade) changed its name to "[Long Blockchain](#)" its stock price jumped 500%, prompting the company to dedicate the proceeds of a 1.6 million share stock sale to buy 1000 machines and become a Bitcoin miner. (2) [Kodak announced](#) the launch of "Kodakcoin," which would "empower photographers and agencies to take greater control in image rights management," and enjoyed a 77% stock boost.

Developments around the globe:

- Russia is considering an [oil-backed cryptocurrency](#) to challenge sanctions and the dollar.
- Ditto for Iran and Venezuela, with wide skepticism being directed to the [latter's "Petro."](#)
- Estonia is [defying the European Union](#) and developing an official Estonian cryptocurrency.
- The Bank of Ghana has been urged to place [1% of its reserves](#) in Bitcoin.
- Brazil is considering moving its [electoral system](#) onto the Ethereum blockchain network.
- Japanese trading (the yen being 40% of the Oct-Nov total) resulted in a [0.3% boost](#) to Japan's 2017 GDP.
- Chinese restrictions on miners is pushing [mining operations](#) to Winnipeg, Canada, where electricity is cheap.
- Global power brokers, fearing empire disruption, are citing use by [drug lords and terrorists](#) as reasons for enacting anti-cryptocurrency legislation. But as analytic firms become more proficient at tracking illicit money flows, criminals are heading for privacy coins such as Monero. Globalists will NEVER catch up, but it won't stop them from using "terrorism" as a prosecutorial excuse.



Observations and opinions

Bitcoin was NOT a random development which materialized out of thin air (or a government lab). If you're interested in Bitcoin's background, here's an excellent [Max Keiser report](#) covering the 20-year "Cypherpunks" movement; it retraces the foundation upon which "Satoshi" based the Bitcoin blockchain concept. The development was motivated by the desire to produce a private store of value. (The second portion of the broadcast is also interesting: Richard Heart paints Bitcoin Cash as a fraud, Bitpay tied to DC money, and more.)

NASAA (the North American Securities Administrators Association) issued a [warning to investors](#) about the risks associated with ICO's (Initial Coin Offerings), which was endorsed by the U.S. SEC (Securities and Exchange Commission). But we already knew that!

Apmex, the world's largest online seller of gold, announced its [acceptance of bitcoin](#) for payment.

Jamie Dimon said he regrets calling Bitcoin "a fraud."

Mike Novogratz decided that instead of starting a cryptocurrency hedge fund, he's going to create the first "full service" financial advisory which caters to crypto space—in effect, a [cryptocurrency merchant bank](#).

Coin Performance – last week

(1/3, 5 pm – 1/10, 5 pm, CST)

Bitcoin (BTC- currency) flattened out, closing the week down \$505 at 14,370. We're still expecting BTC to take off ~mid February on its next leg up to 100,000. In a very [worthwhile post](#), Lou Kerner characterized Bitcoin as a store in value, "simply a confidence game."

Bitcoin cash (BCH- currency) bounced \$335 to 2880. BCH is being pushed by larger miners, and often operates performs inversely to BTC—as if investors are moving money from one to another.

Dash (DASH- payments) slid \$63 to 1072 and may still be designated as a preferred coin for "some" (likely government-connected) market.

EOS (EOS- platform) gained another \$1.95 to 11.05 and we're expecting more growth in fall, 2018.

Ethereum (ETH- platform) continued rising and cleared \$1300 before closing at 1215, up \$270. Specific applications for its platform are beginning to be identified.

Litecoin (LTC- currency) finished the week absolutely flat, at 243.

Monero (XMR- store of value) inched \$14 higher to 396 – with its list of buyers now reportedly including North Korea.

NEO (NEO- currency) continued rising, with the Chinese crypto closing \$14 higher at 119.

OmiseGo (OMG- payments) gained \$2 to 22.60. OMG appears destined to be one of the leaders in the spring '18 crypto advance.

Populous (PPT- factoring) dropped \$3.70 to 50.60.

Ripple (XRP- payments) [the "bankster coin"] plunged when CoinMarketCap removed South Korean exchanges, where Ripple is traded in very high volumes at a 30% premium, from its index. Also, exchange giant [Coinbase denied](#) rumors that it planned to add XRP to its offerings. Its recent move higher is still, in our opinion, tied to potentially becoming the payment channel for Amazon and/or one other major retail player.



Spectre ([XSPEC](#)- markets) fell 70-cents to 4.77.

Veritaseum ([VERI](#)- trading) rose \$50 to 430 and may fulfill its full market potential from late February through March 2018.

Zero X ([ZRX](#)- platform) doubled, to 2.10.

Coin purchases and sales supported on various popular exchanges

Coinbase: BTC, ETH, LTC, BCH

Kraken: Coinbase, plus DASH, XMR, XRP and GNO, ICN, MLN, REP, ZEC, ETC and STR.

Bittrex: Coinbase, plus DASH, XMR, NEO, OMG, XRP and ADA, XVG, ZEC, ETC, BTG

Gemini: same as Coinbase

Binance is the world's largest exchange; it's located in China and allows trading of over 100 coins.

Poloniex supports Coinbase, plus DASH, ETC, NXT, STR, XMR, XRP and ZEC

If the coin you are seeking is not on a major exchange, you may have to purchase directly from the coin's website and hold there or on a hardware wallet.

*As a reminder, **we cannot be responsible** for the success, or lack of it, of your investing. You will be trading or otherwise acting on the information we provide at your own risk.*

Answering Readers' Questions

"I have several coins on Coinbase and would like to move to an exchange with a larger selection of coins. How do I go about making such a transfer? Where do I find the codes for my coins? - D.F.

Here's a [step-by-step guide](#) for moving coins from Coinbase to Binance in order to purchase Ripple (as an example). The process would be very similar for Kraken or Bittrex.

Have a question for our Crypto Reporter? Email service@waynepeterson.net and we'll answer it directly via email or publish it in the next issue. Your inquiry will be totally private.

Allocation Ideas

(coin descriptions and current status above)

Most conservative:

70% in Bitcoin – the "rock," and recipient of most new investing capital

30% in cash – held in reserve, to be added in 10% increments on dips in the price

Long-term investor:

50% Bitcoin

25% Bitcoin cash

25% Ethereum

Trader:

25% Bitcoin

10% each BCH, ETH, XMR, NEO, OMG, LTC, 15% cash

Wayne's current trading allocation:

55% Ripple, anticipating its designation (soon) as a payment channel for Amazon (the REAL reason it has been rising for the past month) and potentially more. You need to be on Bittrex or Poloniex to buy Ripple.

10% each in Bitcoin, Ethereum and Neo. BTC and ETH are cryptospace fixtures and some should always be in possession.... NEO is a bet on the long-term impact of cryptocurrencies in China. For NEO you also need Bittrex.

15% in cash.

Our next letter will be published on January 17