Complete Guide to

Bitcoin Investing

DrWealth

Bitcoin is one of the largest cryptocurrencies of all time, reigning as the cryptocurrency with the biggest market cap since its inception.

Although it was first introduced in 2009, it truly gained mass interest of investors in 2021. It has outgrown its cult following of computer nerds and acute investors to gaining the attention of retail investors across the globe.

Everyone seems to be talking about it.

Everyone has their own views.

Although many critics may bash bitcoin. Here are few key things you might not know:

- Did you know that bitcoin is **limited to only 21 Million coins** and unlike the paper currency which the government can print indefinitely?

- Did you know that all bitcoin transactions are **fully transparent** and can be traced all the way to its root?

- Did you know that there are many cryptocurrency out there and among **all bitcoin is the first cryptocurrency**? Well, there's always something magical about being the first as it tends to have high perceived value from people.

Since the prices have increased so much. You are probably wondering are you too late in the game or how can you get started?

Although Bitcoin has grown tremendously, surviving several volatile market cycles, we remain at the early days of Bitcoin and cryptocurrency.

So, if you're new, don't worry. Take your time to learn and do your due diligence before deciding if Bitcoin is a suitable component for your portfolio.

This guide aims to give aspiring Bitcoin investors and cryptocurrency investors the fundamentals you need to understand this new asset class. By the end of this guide, you should:

- understand what Bitcoin is,
- what problem(s) Bitcoin aims to solve,
- Is Bitcoin legal in Singapore,
- how to buy Bitcoin in Singapore,
- Role of Bitcoin in your portfolio,
- Risks of investing in Bitcoin.

Table of Contents

DrWealth

What is a Cryptocurrency?

A cryptocurrency is a digital or virtual currency whose transactions are secured using cryptography.

This makes it almost impossible to counterfeit and reduces the risk of double spending.

Most cryptocurrencies are decentralized and run on blockchain technology, which is a distributed ledger maintained by a network of computers, instead of one single entity.

Fiat currencies are backed up by the country issuing them. If you take a close look at your $2 note or $1 coin, you will notice the words ‘legal tender’. What this means is that these coins or banknotes must be accepted in payment of a debt.

For example, Starbucks is legally bounded to accept my dollar notes in exchange for their coffee. On the other hand, if I insist on paying for my latte with two bananas, they have every right to refuse me my drink.

Cryptocurrencies on the other hand are not backed by any country. Bitcoin is also the world's first decentralised cryptocurrency. So...

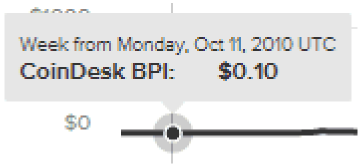
What is Bitcoin?

Bitcoin is a virtual, decentralized* currency that can be traded or used over the internet.

**Decentralised = Environment where power and functions are distributed away from a central authority*

#funfact

Did you know that once a upon time, Bitcoin actually traded at USD $0.10?



How is Bitcoin’s value derived

Governments all over the world intervene in the money markets with **one overriding aim** – that is to keep their currencies stable.

When supply is more than demand, the Central Bank might step in to mop up excess liquidity from the markets to prevent the currency from rapidly losing value and vice versa.

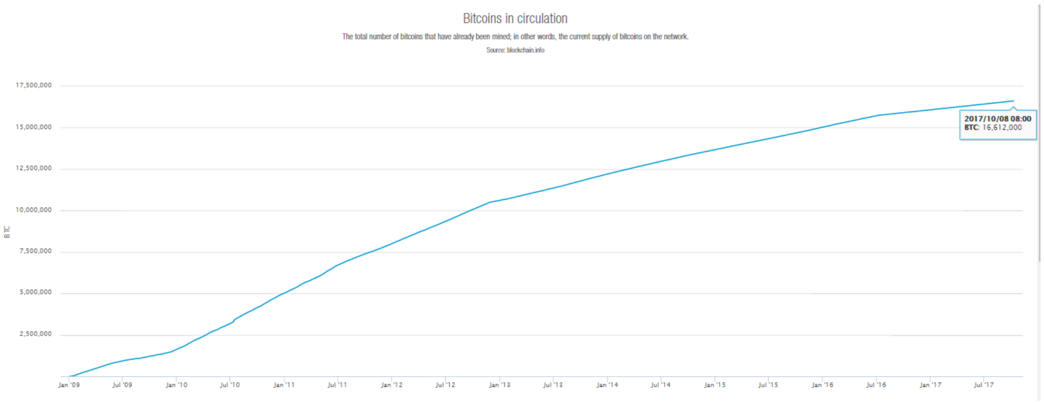
This stability creates confidence in the minds of consumers and businesses utilising the currency.

Because there is no Central Bank doing the same for Bitcoin, the value of Bitcoin is left entirely to market forces (*and speculative activity*). Unfortunately, this also causes massive fluctuations in the value of the currency.

How many Bitcoins are there in the world?

The total number of bitcoins will eventually converge to **21 million** in the year 2140.

At the point of writing, **18,947,893.7 Bitcoins** are in circulation. The latest number of bitcoins in circulation can be monitored here: Bitcoins in Circulation



Source: blockchain.info

If there is an indefinite amount of a commodity in the world, the value of that commodity would decrease. Rarity creates value. It might help to think of the Fed printing money as devaluing the US dollar.

Hence there must be a cap to the total number of bitcoins in existence, and a pre-determined schedule allows that.

Bitcoin gets harder to mine as the supply increases. The current block of bitcoins is 12.5. Every 4 years, the block of bitcoins reduces by half.

Many other digital currencies are created to overcome the limit in Bitcoin supply. When we last edited this guide, there were only ~8,000 cryptocurrencies. Now, there are 16,215 digital currencies (probably even more by the time you read this), and Bitcoin makes up 40% of all cryptocurrencies.

5 distinct characteristics of Bitcoin

#1 - Open Source: No one owns or control Bitcoin

Unlike currencies which are controlled by governments, Bitcoin is not owned by anyone.

It is decentralised and transactions are verified by users on the Bitcoin network.

More importantly, no government has the power to shut down Bitcoin, unless they are able to shut down the internet.

That said, governments are learning how they should regulate new form of currency. We will have to observe their moves going forward.

#2 - Transparency: a dream come true for law enforcement

When it first hit the market, Bitcoin was pictured as the dream for crooks and drug lords. However, if you understood the mechanism, you will know that it isn't that easy to use Bitcoin for crime.

Bitcoin is pseudonymous, not anonymous. All bitcoin transactions are logged in a public ledger which anyone can access. For example, blockchain.info broadcasts every transaction.

This is transparent and law enforcers can trace the transactions right back to the day the bitcoin was mined, which can greatly helped them in finding the crooks.

With that being said, it is not easy to link the digital transactions or Bitcoin address directly to an individual.

#3 - Low Transaction Cost: Disrupts banking and payment industry

Bitcoin has a trump card - low transaction cost.

Do not underestimate this as many big banks and payment companies like Visa and MasterCard make loads of money off transactions every second.

With Bitcoin, you can overcome credit card purchases of 2-3% transaction costs, telegraphic transfer fees and even remittance taxes. Businesses can share the cost savings with consumers and take out the middleman.

And because of low transaction costs, micro-payments are made possible, which further enhances the possibilities for micro-lending and crowd-funding activities.

Without Bitcoin, you would probably incur a transaction cost larger than the amount you wanted to pay. For example, a telegraphic transfer will cost you $35, even if you are transferring $10 to another person stationed overseas. Bitcoin can denominate into 1 satoshi = 0.000 000 01 BTC and hence, micro-payments are a reality.

#4 - No Personal Data Revealed: No security costs

A Bitcoin transaction requires at least two unique addresses (think of these as bank account numbers) – a payee and a receiver.

There are no personal details being disclosed like your credit card details other than the digital addresses. There is no requirement to store personal data and subsequently install expensive security systems to protect them.

#5 - Digital Property: Not a currency yet

The only issue with Bitcoin is that it is recognised as a commodity or digital property. It is not viewed as a currency even though it has been labelled as such.

We view it like a commodity instead because:

- Limited supply of Bitcoin at 21 million - hence its value will be affected by supply and demand.

- Bitcoin is not controlled by anyone.

- The price of Bitcoin is too volatile. A currency need to be stable otherwise the users will be fearful that the value can tank any time and lose their wealth.

- Countries like Japan and Finland have officially classified Bitcoin as a commodity. Bitcoin can attract capital gain tax in some countries and it used to attract GST in Singapore.*

*This practice was discontinued after the IRAS reviewed GST requirements for Bitcoin and other 'Digital Payment Tokens'.

Bitcoin as a currency

As with all currencies, Bitcoin can function as a means of exchange and a store of value:

Bitcoin as a store of value

There's an on-going debate about Bitcoin's as a store of value. I present both sides of the argument here:

<u>Pro Bitcoin Stance:</u>

As mentioned above, there'll only be 21M bitcoin created. This gives Bitcoin scarcity and pro-Bitcoin-ers believe that its scarcity will allow Bitcoin to become a store of value against fiat currency which can be easily inflated by governments. They also believe that Bitcoin could rival gold's status as a store of value as it is more portable and accessible.

<u>Anti-Bitcoin Stance:</u>

On the other hand, the anti-bitcoin argument is that it is a relatively new asset and is highly volatile. We've seen its value fluctuate between highs of US$60k and lows of US$20k. Until Bitcoin and cryptocurrencies are proven to survive over the long run and reduce the volatility, investors in this group are unlikely to gain confidence of Bitcoin as a store of value.

Bitcoin as a means of exchange

In future, you can also use Bitcoin to purchase goods and services just like you will with your physical money.

What can Bitcoins be used for currently?

The list of merchants accepting bitcoins is growing everyday.

Amazon.com, the granddaddy retailer of the western internet world had jumped on the bandwagon and started accepting the virtual currency as payment.

Major retailers in the US such as GAP, Sears and JC Penny have also started to accept payment in bitcoins. In Singapore at this moment, we only have a sprinkling of cafes and pubs.

How to own Bitcoins?

Anyone can own Bitcoins.

There are basically two ways to accumulate bitcoins. You can mine them by connecting your computer to a network, running it 24/7 and dedicating computing technology to the solving of complex mathematical problems, or you could buy bitcoins with fiat money.

We explore these methods in this section:

Bitcoin Mining

Bitcoin Mining is very technical, we will not go in-depth in this guide.

You can watch this video for a quick summary.

Basically, during the mining process, Bitcoin transactions are being encrypted and added to the public ledger (think of it as a public record book).

Miners encrypt the transactions by running the mining software to crack mathematical puzzles. Those who solve the puzzle first will be rewarded with Bitcoins. The more miners, the more secured the transactions.

Why Mine for Bitcoins?

Mining solves the distribution problem for virtual currencies. Unlike physical currencies where there is a central authority to print and distribute, there is no way to answer the – "who gets the money?" question for Bitcoin.

Mining presents the most elegant solution by demanding and subsequently rewarding, effort. Miners help encrypt and keep the transactions secured, and thus are rewarded with Bitcoins.

How does one mine a virtual currency like Bitcoin?

Unlike traditional gold miners who exert physical labour to extract ore from the earth, mining for the virtual currency involves using computers to perform complex data processing activities.

Miners are rewarded for their efforts with blocks of bitcoins after their solutions are submitted to the Bitcoin network. At this moment, one block is worth 12.5 bitcoins and that number will halve approximately every four years.

Misconceptions on Bitcoin Mining

We've noticed 2 major misconceptions on bitcoin mining from the public:

#1 - You need in-depth technical knowledge or specialised skills to mine Bitcoins

This is not true. All you need to start mining bitcoins (*or alternative cryptocurrencies*) is a computer, an internet connection and a mining software that you can download for free.

Sounds easy, this leads to the 2nd misconception...

#2 - I can get free money just by mining for bitcoin!

Nothing is free.

Remember, the difficulty of mining increases exponentially over time due to the limit on the number of Bitcoins.

Instead of exchanging your money for Bitcoins directly, miners pay in terms of their time, electricity and equipment.

Mining get more difficult with time, hence miners will need better equipment, better hardware and spend more on electricity to mine.

We foresee that miners who do not keep up with these improvement will soon start to experience a depreciating return on the amount of Bitcoins they can mine.

For the majority, purchasing bitcoins is the more common option.

3 Ways to buy Bitcoin in Singapore

There 3 ways you can buy bitcoins in Singapore:

#1 - Cryptocurrency Exchange

A Bitcoin exchange functions like your broker and stock exchange combined.

Buyers and sellers come together and the exchange matches the best prices for both and facilitates the transaction, taking a small commission in the process.

This is the one of the most common way of purchasing bitcoins.

We've compiled an updated list of the Best Cryptocurrency Exchanges in Singapore here.

#2 - Peer to Peer (P2P) cryptocurrency exchanges

You could also choose to purchase bitcoins through a third party broker.

P2P crypto exchanges look like any other cryptocurrency exchanges where you can get Bitcoin. However, instead of paying the market price and a fee, you buy the Bitcoin from other users at the price they're asking for.

Think of this like carousell for Bitcoin. Do take note that P2P exchanges also charge a transaction fee, hence your cost may not be that much cheaper.

Some popular P2P crypto exchanges include Kucoin, Binance and Huobi, of which only Kucoin is accessible in Singapore.

#3 - Third Party Broker

You could also choose to purchase bitcoins through a third party broker.

These are less commonly preferred as most people are able to purchase bitcoins from Bitcoin Exchanges directly.

~~#4 - Bitcoin ATMs~~

The Bitcoin ATM works in the same way as our usual bank ATM. You can deposit cash and convert it into Bitcoin, and withdraw cash by converting your Bitcoin to SGD.

The exchange rate of Bitcoin will be reflected at the ATMs. Do note that there would be a premium. Think of it as the Bid/Ask spread.

Update
On 17 Jan 2022, the Monetary Authority of Singapore (MAS) had issued guidelines which no longer allow crypto companies to advertise their services in public areas or publications nor provide physical bitcoin ATMs to the public.

As a result, Bitcoin ATMs in Singapore have been mostly removed or shut down till further updates from the MAS.

How to Buy Bitcoin in Singapore? (step by step guide for beginners)

1: Choose a cryptocurrency exchange

There are several cryptocurrency exchanges in Singapore which you can choose from.

If you're new, here're 5 factors you must consider when choosing a cryptocurrency exchange in Singapore:

1. Are they exempted under MAS' Payment Services Act?
2. Can you fund your account easily, and affordably?
3. What are their trading fees?
4. Do they allow you to withdraw your Bitcoin easily?
5. What cryptocurrencies do they support?

As mentioned above, we have compiled a full, updated list of the best cryptocurrency exchanges in Singapore here.

Personally, I use Gemini because it allows me to withdraw my Bitcoin for free, which is important when it comes to securing and storing my Bitcoin (see next section).

2: Create an account

Once you have chosen a cryptocurrency exchange of your choice, go ahead to create an account.

This process is relatively fast, and you could even get some freebies or perks if you find any ongoing promotions.

However, before you can buy Bitcoin, you'll need to complete the next step:

3: Complete the Know-Your-Customer (KYC) process

The KYC process is essentially a verification process required by most financial services including centralised cryptocurrency exchanges, usually to reduce the risk of money laundering.

It typically requires you to provide the following:

- Identification (Passport, NIRC or Driving License)
- Proof of address (latest utility bill or credit card bill)
- Biometric check or Submitting a selfie with customised instructions

Every exchange's process is slightly different but they generally provide easy and straightforward instructions to help you through the KYC process.

After you've submitted the documents, the verification process might take up to a week.

4: Fund your account

Once your account has been verified, you can fund your account. Simply follow the instructions provided by your cryptocurrency exchange.

Depending on your choice of exchange, you should be able to fund your account easily via:

- Bank Transfer / FAST
- Xfers
- Credit card (do note the fees)

This process is usually quite fast too, however you might need to wait for 3-5 working days if there are alot of people funding their accounts at the same time.

5: Buy Bitcoin

After your funds are in your account, you can now buy Bitcoin via your cryptocurrency exchange.

Simply navigate to the buy Bitcoin interface and place your order. This process is similar to using a online stock broker with many cryptocurrency exchanges allowing you to set a buy price.

The Case against Bitcoin Exchanges

The key draw of Bitcoin and Blockchain is the concept of being decentralised. In this light, many would argue that storing and buying your Bitcoins through a broker defeats the purpose.

Because by using an exchange, you are allowing your Bitcoins to be centralised at *the exchange*.

We asked Chris Long, our trainer at the free Cryptocurrency Masterclass for his opinion on purchasing and storing your cryptocurrency via an exchange:

"If you are investing a small amount, say $500, investing via an exchange makes sense because it is so convenient. However, if you are investing more and want complete control of your Bitcoin, avoid the exchanges. Use a hardware wallet for peace of mind."

How to store your Bitcoin securely?

Bitcoin and cryptocurrency has had their fair share of controversy and hacks where early investors lost significant amount of their coins.

An infamous example is Mt. Gox which was one of the largest Bitcoin exchanges back in 2013 where it was involved for ~70% of all bitcoin being traded. In Feb 2014, it was reported that 850,000 bitcoin was stolen from Mt. Gox's hot wallet. The exchange was subsequently liquidated and closed in April 2014 with 600,000 Bitcoin never to be retrieved again.

This goes to show that as Bitcoin investors, you have to take responsibility for your own Bitcoin and cryptocurrencies. Storing them in an exchange is NOT a secure way to keep your bitcoin.

In this section, I share how you can store your Bitcoin securely, so that you won't be vulnerable to losing your Bitcoins in a hack.

The key draw of Bitcoin and Blockchain is the concept of being decentralised. In this light, many would argue that storing and buying your Bitcoins through a broker defeats the purpose.

Ideally, you should not be storing your Bitcoin in your exchange, especially if you are planning to hold it over the long term and don't want to expose yourself to security risks like the incident with Mt. Gox.

Instead, you should be storing your Bitcoin in your own wallet.

Like cash, you can store your Bitcoins and Cryptocurrency in a 'wallet'. Although it works just like a physical wallet, a cryptocurrency wallet is actually more like a digital bank account or vault.

At this point, do keep in mind that Bitcoin is a virtual currency. There will NOT be any physical coins involved. The only indication that you have owned bitcoins is via your virtual wallet statement.

There are two types of wallets:

1) Hot Wallet

A 'hot' wallet refers to a wallet that has direct connection to the internet. This includes the wallets on exchanges.

However, you can also create your own private hot wallet. Common hot wallets include Metamask, Trust Wallet, and Coinbase Wallet which allows you to own your own private keys.

To create your own hot wallet, all you need to do is to go to the website of the provider and create an account. You'll likely be provided with a secret phases which lets you access your hot wallet.

A good practice is to write down your secret phases on a piece of paper and store it securely, do not save them in your computer as hackers have been known to be able to gain access to secret phases stored on computers.

Bitcoin Wallets in Singapore

If you prefer to use a hot Bitcoin Wallet services in Singapore, Coinhako and Luno are some examples.

A common practice is to use hot wallets to store cryptocurrencies that you wish to transact frequently.

2) Cold Wallet

However, if you're planning to buy and hold Bitcoin over the long term, a cold wallet is a better option.

As oppose to a hot wallet, a cold wallet is not connected to the internet, and are commonly in the form of a physical cryptocurrency wallets / device, or hardware wallet.

Common hardware wallet solutions include Trezor and Ledger. I shared more about the importance of using a hardware wallet here.

There are two main components:

i) Wallet Address

This is like your bank account number where people can transfer money or bitcoin to you. You can also think of it like an email address or P.O. box address.

ii) Private Keys

This is like the keys which gives you access to your vault. This allows you to move your Bitcoin out from your wallet, you never want to share your keys with anyone. Once they have access to your keys, they have access to your Bitcoin.

Bitcoin Investing

Since its rapid rise from $100 to the $1,000+ levels, Bitcoins have started to pique the interest of traders across the globe.

Those who have bought early were glad that they did. Those who just discovered it are left wondering if it still holds any potential.

We explore Bitcoin Investing in this section.

But, first up let's take a look at what everyone's favourite investor thinks about it:

What Does Warren Buffet Have to Say About Bitcoins?

Warren Buffett is convinced that Bitcoins are not viable as a currency and won't be surprised if they are not around in 10 or 20 years. It's not a store of value and it's been a very speculative instrument. He compares it to the Tulip bulb bubble which crashed a long time ago.

It would be interesting to see how the Bitcoins fare over time. However, Bitcoins are unlikely to be continue to grow without being regulated.

The government central banks of different countries would have to come together to create a framework as Bitcoins have the ability to transcend geographical boundaries.

Risks of Bitcoins

Now that we have our foundations covered, let's look into the potential danger of bitcoins.

MAS has released their view on Bitcoins and Cryptocurrencies on Aug 2017. They are monitoring the scene, and will regulate cryptocurrencies if they are related to products that fall under the Securities and Futures Act (Cap. 289) (SFA).

Money Laundering
One of the potential problems is for Bitcoins to be used for money laundering. Speculators have also targeted the Bitcoin, causing the price to fluctuate wildly.

Bitcoin wallets and exchanges have also been unstable and subject to hackers, the most famous one being the Mt Gox exchange which went bankrupt after coins disappeared.

ICOs
One of the concerns raised in MAS' press release, is the use of ICOs in money laundering and terrorist financing due to the anonymous nature of cryptocurrencies.

Volatility
As a relatively new concept and investment tool, Bitcoins and cryptocurrencies in Singapore are still highly speculative.

Prices are highly volatile and is vulnerable to changes in the economy, countries policies against cryptocurrencies and much more.

As an investor, you will need to be able to stomach the volatility and risks. You should do your own due diligence and practice sound capital allocation.

Scams
As Bitcoins and Cryptocurrencies gain popularity for its rapid growth, we may see scams targeting the less informed appearing.

It is important to understand how Bitcoins and cryptocurrencies work, in order to avoid being a victim.

The Future of Bitcoins?

With both sides of the argument presented to you above, we move on to look at the potential future of Bitcoins in our current economy.

Would it be a viable investment tool for investors? Would it really be able to become the currency of the future? And, how else can investors manage Bitcoins in their portfolio?

Bitcoin As An Investment Tool

Bitcoin and cryptocurrency have gained traction this year. We've seen them scaling new heights as investors were bullish on its development.

As an investment, Bitcoin may not be as 'undervalued' as it was back in 2016.

As a currency, it is still unstable due to its extreme volatility.

As a trading tool, it seem to have just picked up interest amongst traders.

Trading platforms like IG and Thinkorswim have started to allow traders to trade Bitcoins through CFDs and Options too.

As with any investment, you will need to understand the vehicle that you are investing in, and know the risks that you are taking.

So...should I buy bitcoins now?

As a replacement to physical currencies, Bitcoin does have some way to go. Although certain merchants have already started to accept Bitcoin payments, they are still rarely used, and usually on used on an experimental basis.

As mentioned above, Bitcoin prices have been extremely volatile. This hardly gives anybody the confidence to use it as a currency.

It will be a long while before virtual currencies will become accepted in kopitiams, supermarkets and for MRT rides. Most merchants are accepting Bitcoins in pursuit of the novelty factor in marketing their brand.

Early adopters might want to purchase some Bitcoins and learn along the way.

As an investment, investors should put in a few more hours of work to understand the Bitcoin and cryptocurrency situation before deciding if they should be investing in it.

Bitcoin as an Alternative Currency or Asset Class

Bitcoin is very novel and there are more skeptics than supporters for it.

It reminds us of the Innovation Adoption Cycle. There will always be a resistance to adopt new technologies and most products fail if they cannot get the early majority to buy.

Bitcoin is probably still at the Early Adopters stage and if it is able to 'cross the chasm', Bitcoin will be here to stay and no one will be able to refute but live with it. But no one know for sure now.

For most alternative assets, price appreciation comes from inflation. Inflation for commodities can be due to rising population, rising costs of producing the commodity, etc.

Likewise, the costs of 'mining' Bitcoins are becoming more expensive over time and the supply which is limited could help to support a base price. As more and more people embrace the technology, it could help to increase demand as well.

Bitcoin as a replacement of Gold in Permanent Portfolio

Bitcoin is similar to Gold in the following ways:

- The value in Bitcoin and Gold are perceptive. Humans attached a value to them otherwise they are worthless. They become more precious when more people acknowledge their value.

- You need to mine Bitcoin and Gold. The difference is that one is digital and the latter is physical.

- They are both limited in quantity.

- Symbols of mistrust of authority. Gold is a safe haven when bad things such as political and currency instability happen. Similarly, Bitcoin is attractive because of the non-interference from governments.

Permanent portfolio investors may be wondering if Bitcoin is viable as a replacement to Gold.

We explore the pros and cons here.

Role of Gold in Permanent Portfolio

The role of Gold in Permanent Portfolio is to hedge against inflation. Gold price is expected to rise during inflationary economic condition.

However, there is an additional role of Gold which most people overlook.

In the worst case scenario where your country goes to war, physical gold is the only asset class of value which you can bring along. Stocks and bonds would likely be custodised and the exchange may not even be opened for you to cash out.

Even if you are able to cash out, you would expect to sell the securities at rock bottom prices due to the outbreak of war. Even the currency value would tank too, holding cash would erode your wealth in reality. Regardless how many properties you have in the war zone, they would not worth much and you cannot bring them along.

It would be handy at this point to have gold coins and small bars which are portable. And they would be able to preserve your wealth while the war wages. If you ask me, you can only trust Gold in the most dire situation. It is not the perfect asset class, but it is your best bet.

Advantage of using Bitcoins in Permanent Portfolio

Bitcoin is not bounded by country. You just need to hold dear to a private key to your Bitcoin wallet and you can access your funds with any IT device connected to the internet.

There are many ways to secure this key. You can totally remove from the internet and cold storage the number in physical form. No hackers would be able to steal your key online.

In times of war, you would not need to worry so much as Bitcoin is always there and should be able to hold value while other asset classes devalue. You can also move on to any parts of the world and still have your bitcoins.

Hence, Bitcoin fulfills the role of Gold in this aspect. In fact, Bitcoin does it better. You need not lug along kilograms of Gold while you travel.

Risk of using Bitcoin in Permanent Portfolio

We are unsure how Bitcoin would perform in an inflationary period. Can Bitcoin hedge against inflation?

Theoretically it should perform well in inflationary period as most people would want to convert cash into other forms of assets. But, this remains unproven in reality.

Bitcoin may affect the value of Gold

If Bitcoin is so similar to Gold, the collective supply has increased.

This means that Bitcoin may compete with Gold and result in a smaller demand for Gold. Gold price may be depressed in the future as Bitcoin become more accepted. This would negatively affect Permanent Portfolio holders as Gold price becomes less volatile during inflationary period.

We need to monitor the development of Bitcoin as it may change the inflationary landscape.

Brief History of Bitcoin

In 2009, Satoshi Nakamoto released Bitcoin as an open-source program, 2 years after he had published a white paper on the concept of Bitcoin and cryptocurrency.

Till today, little has been confirmed about the identity of Satoshi Nakamoto. Countries and companies are curious about Satoshi's identity because he is known to own 1 million Bitcoins in his wallet. With the growth of Bitcoin's value, Satoshi's wealth could make a difference in today's economy.

Still curious? Here's the interactive timeline: History of Bitcoin

Alternative Cryptocurrencies

As mentioned above, many other digital currencies have been created to overcome the limit in Bitcoin supply. These digital currencies are also known as ‘altcoins’.

Altcoins: alternative currencies to Bitcoin

One of the more prominent altcoin is Ethereum, due to its wider range of application

Bhavesh, a friend and reader of ours had provided a great introduction to Ethereum and shared his experience previously. You can read it here: Ethereum: 4 x returns in 60 days

We continue to write and share what we’ve learnt about cryptocurrencies on our blog as well. Do check it for the latest!

Best Bitcoin Books

I hope this guide has provided you with some actionable clarity about Bitcoin. For folks who want to dive deeper into the intricate details of Bitcoin and Cryptocurrencies, here're two books I'd recommend (and where you can read them for free):

1) Token Economy by Shermin Voshmgir

This book gives you a good introduction to the concept of Cryptocurrency, the role of Bitcoin and how the future of the internet and economy could play out.

You can read the free, updated version here.

2) Mastering Bitcoin by Andreas M. Antonopoulos

Mastering Bitcoin gives readers a deep walkthrough of Bitcoin from how keys and wallets work down to security. If you want to fully understand Bitcoin, start from this book.

You can read the book here.

Frequently Asked Questions

How does Bitcoin compare with physical currencies?

Bitcoin is a virtual currency. The concept of virtual currency is still very novel. While they share the same functions as physical currencies, many aspects are radically different. Hence we cannot measure Bitcoin with the same yardstick used on physical currencies.

Traditional currencies are backed by Governments and nations (or a group of nations in the case of the Euro). The strength and stability and security is tied to that of the host nation. A virtual currency like Bitcoin bypasses this issue altogether.

Proponents of Bitcoin state that transactions are free, anonymous and instantaneous, qualities that no doubt make Bitcoin the next big thing provided it conquers the security issues it is facing right now.

Is Bitcoin legal in Singapore?

In Singapore, Bitcoin and cryptocurrencies are not legal tender and hence, are not regulated by the Monetary Authority of Singapore (MAS), at the point of writing.

Thus far, the Monetary Authority of Singapore (MAS) has taken a progressive approach to Bitcoin and cryptocurrency. Rather than outright stating that Bitcoin is illegal, they have sounded a cautionary note about the currency, leaving the onus on the user and investor. However, they have repeatedly cautioned Singaporeans to the risks of cryptocurrency.

In recent years, the MAS has started to take a clearer, regulatory approach towards cryptocurrency, stating that:

"the offer or issue of digital tokens in Singapore will be regulated by MAS if the digital tokens constitute products regulated under the Securities and Futures Act (Cap. 289) (SFA)"

You can read the entire press release from 1st Aug 2017 via the MAS' website.

Since then, they have also been working with cryptocurrency exchanges - those which have received an exemption from the Payment Services (PS) Act by MAS are allowed to operate and serve Singaporeans.

As of 17 Jan 2022, the MAS has released new guidelines that discourages the trading of cryptocurrency by the general public. You can read the full 2022 press release here. As part of this set of guidelines, cryptocurrency providers are no longer allowed to advertise their services publicly.

Our take is that the MAS' move was done to protect unknowing investors from falling for scams or bad investments. Cryptocurrency exchanges exempted from the PS act continue to be in business while Bitcoin ATMs operators were not fined for having operated publicly previously, although most have been shut down.
Regulations are likely to be updated along the way as the MAS figures out how best to regulate Bitcoin, so do look out for changes!

Would Bitcoin be adopted worldwide in the future?

Half the world doesn’t have bank accounts. 80% Indonesians, 65% Indians, 12% Americans and 70% Africans have no bank accounts.

Africa was a special continent immediately went onto mobile communication network without transiting through landlines. Countries like Africa may bypass the bank accounts to Bitcoin. In fact, one third of Kenyans have bitcoins.

Many countries are permissive or investigative towards the adoption of Bitcoin and the number is increasing.

What could greater adoption of Bitcoin lead to?

As the adoption of Bitcoin expands, related services would be provisioned. We could have Bitcoin mining companies that are listed such as Digital BTC.

In the future, there may be Bitcoin insurance, Bitcoin debit cards and Bitcoin derivatives products.