



A hidden **MESSAGE?**

PROFESSOR KOSTAS I. NIKOLOPOULOS and Senior Research Associate DR AZZAM J.M.A.H. ALROOMI consider cryptocurrencies, logic, accountability and ‘the next big thing’.

Derived from the Greek ‘kruptos’, the word ‘crypto’ commonly means ‘secret’ or ‘hidden’. In the context of cryptocurrencies, this is most apt. As an internet-based currency, it is effectively hidden from popular use. Few know how cryptocurrencies work. No one really knows who invented them or whether they will be around next year.

Amid all the uncertainty and speculation surrounding digital currencies, particularly over the past year, it is worrying that governments, central banks and banks have no official stake yet in cryptos. There has been no intervention from the regulators. This situation may be about to change, as the gathering options and futures markets in cryptos give the banks and other major players the upper hand.

While this could prompt a 21st-century gold rush, it could also be a sign that we are moving towards a revolution where money takes centre

stage, without the banks and with no central and federal government interference.

SPECULATE AND ACCUMULATE

The eternal chase for the next big thing leads investors and traders to try to anticipate market direction (and the next revolution) by speculating, predicting and forecasting their way to riches. Accurately predicting the next big thing, of course, is a challenge. Opinions differ. Some might say oil will go back to its \$110 heyday. Others may jump on the Dow Jones rocket; after all, at the time of writing, it has moved more than 14% since the start of the year, dipping dramatically before picking up momentum again.

And then there are those who choose to ride the significant upward trend in the likes of Bitcoin, unafraid of the lack of any clear explanation for an unconventional currency becoming so popular and behaving the way it has.

WHY NOW?

Perhaps the public have become more aware of how central banks operate. Perhaps they now have a more active stance on the significant controlling effect that these central banks have on inflation, and how, as traditional bank users, they must face depreciation of their money. But then this ‘movement’, such as it is, does not match the seismic shift in value exhibited by cryptocurrencies, especially Bitcoin.

At the start of 2017, Bitcoin was averaging \$1,000 over the first quarter. By December, its price was at an all-time high of \$17,409. If you consider all the possible reasons why it has behaved as it has, you will still not arrive at any plausible conclusion for its trajectory.

AN ANSWER, MAYBE

A key feature of cryptocurrency is the transparency of its transactional system: anyone can view any and all transactions. That is something a customer of a traditional bank might find both significant and appealing.

In recent times, most fiat currencies have lost value through inflation while being

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kept in bank accounts. As people become aware of these losses, some of them might begin seeking an alternative. Could that be digital currencies, since these are unaffected by inflation?

At the same time, however, the views of those who are opposed to the whole idea of digital currencies are being heard loud and clear. It's their talk of 'extreme volatility' that is scaring off many investors from taking a position. Bitcoin, to the anti-crypto brigade, is, so far at least, the 'worst of the worst' example of volatility: it dropped more than 25% of its value in just four hours on 8 December 2017.

To put Bitcoin's volatility into perspective, between 8 November and 8 December it had risen more than three-fold, going from \$5,300 to \$17,409. That's a scary prospect for the more conventional investor.

To less risk-averse investors and traders, though, this is the opportunity of a lifetime. In their quest for riches, will it be Bitcoin or one of its rivals, such as Ethereum or Litecoin, that will rise to the top? Digital currencies have become so popular that a new one is introduced into the market

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almost every other week. There are now more than 1,200 to choose from, all vying to be the 'next big thing'.

FOR HOW MUCH LONGER?

If we go back in history, to the days before fiat currencies, people would trade different goods (such as raw materials and agricultural produce) for different services. Then fiat currencies were introduced, and the banking system took over. Central and federal banks were later introduced as the controlling and governing bodies, created by a rich private elite who sought to regulate the banking system.

Was the banking system created by and for those who would benefit most from it? Was its creation an attempt to control the

public's wealth? Was it a means of hedging the riches of the elite when investing in and taking risky positions? Some may say yes, this is how the banking system operates.

Today, taxpayers wonder why they must pay for the mistakes of the banks. Why is so much trust placed in the banking system, and for how much longer will it devalue wealth by inflation? Indeed, for how much longer will the banking system itself be trusted?

The 'next big thing' could be cryptocurrency. This may or may not be a logical outcome, but, through its inherent transparency, at least there can be accountability for the monies that will be lost in the process. Of course, a few will prosper as well. They always do. ^{CB}

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