Bitcoin vs. Gold: A Tired Debate

written by Matthew Piepenburg | May 17, 2021

Bias vs. Logic

We've written elsewhere about the ironic **over-use of logic** to justify otherwise illogical biases. As Swiss-based precious metals professionals who see physical gold and silver as currency protection outside of an openly illogical (and dangerously fractured) banking system, it is more than fair for some to challenge our own "logic" (bias?) when it comes to the question of Bitcoin vs. Gold.

We understand such critiques.

Pandora's Box

Such criticism, of course, strikes even more nerves (and claims of potential illogic) when precious metal professionals open the Pandora's box of any conversation around Bitcoin, which has become, understandably, the sacred cow of many over-night millionaires and legitimately intelligent folks who, like us, distrust now obviously **debased fiat currencies**.

There's also no ignoring the hysteria (as well as money flows) which support growing claims that BTC has or will replace gold as a new, modern and highly sophisticated store of value.

Needless to say, our logic (or "bias" to many Bitcoiners) strongly disagrees with this BTC claim for reasons you have all likely heard before and which we will only touch upon below.

Apples to Oranges

In many ways, however, we are not concerned with the Bitcoin vs. Gold debate for the simple reason that we see them as entirely separate investment classes—that is, a comparison of apples to oranges, not oranges to say… tangerines.

At the simplest level, BTC is a speculation investment, gold is a preservation asset, and thus we have no long-term interest in (as opposed to fear of) entering this "debate" nor in championing precious metals by denigrating cryptos in general or BTC in particular.

In short, one doesn't need to attack BTC to make a case for gold, as **gold's case** stands entirely—and logically— by itself.

At the same time, and regardless of one's views (or biases) on gold, one (be they gold owners or stock pickers) should not simply ignore the growing and undeniable concerns rising around the BTC issue, even if those critiques come today from a Precious Metal enterprise.

In short, and despite the inevitable attacks I can and will receive from the BTC camp, I see *objective* risk in this otherwise bubbling and much loved "digital coin."

Bitcoin Bubble? Yep.

In **a world of debt-driven bubbles**, be they 1) stocks with CAPE ratios at 30; 2) sovereign bonds offering negative yields; 3) corporate bonds of predominantly covenant light and junk status; 4) SPAC froth; and 5) grossly over-valued tech names—it is no surprise nor effort for me to add the word "Bitcoin" to the list of current bubbles in global *economic* recession made all the worse by an equally nightmarish global pandemic.

BTC: This Time is Different?

As for the profile of a bubble, the case against (or at least openly cautious of) BTC has been made before and will mean nothing to those who are already convinced that "this time it's different."

BTC's true believers feel this "coin" will only rise to the moon and take over the world as a new store of value and new global currency backed by admittedly remarkable technological innovation rather than a physical commodity.

But here's the rub: The facts as well as future possibilities portend a very different story, despite all the fun many have had riding the BTC wave.

BTC, as current data and future regulatory, geopolitical and financial trends confirm, is not a currency, nor a unit of account, and despite all the vlogs, blogs and interviews to the contrary, is certainly not a stable store of value.

Currency? Store of Value?

Even the most faithful devotes of BTC cannot deny that a "currency" or "store of value" with price moves of 20% in a single trading day is hardly finding (or justifying) its way to such designations.

As for currency status, not even BTC conferences will take it as payment, for its radical price moves can potentially wipe out (or grow) their profit margins overnight.

Others, of course, will say, Bitcoin's time will come after gradual adoption, and "what about Tesla, you can buy that with BTC."

Well, actually you can't, and trusting tweet-happy front-runners like Musk, or over-valued balance sheets like Tesla, is an individual choice, and yours to enter (and hopefully exit correctly) at your own discretion and skill.

Old Tricks, New Widget

There is also no doubt that great fortunes have and can be made in such investments. I can't count how many times I've traded Tesla long and short with a smile.

But let us also recognize that Musk's "funding secured" tweets in 2018 amounted to fraud, and as of this writing, a Tesla in fact *can't* be bought with BTC despite Elon's expected attempts to "greenwash" this crypto's otherwise electricity-sucking mining operations as "environmentally healthy."

But lies, front-runs and price-fixing tricks from **CEOs like Musk** are forgiven because, at least for now, Tesla's stock and BTC's valuation "prove their rightness" based on price, not truth, value or common sense.

Needless to say, no "asset" discussion of BTC is free of its short but sordid history of pump and dump, spoofing, wash trading and other front-running schemes and headlines (think BitMax) in which the big money pretends a "philosophical" interest in BTC merely to crush the little money when the time is right to buy and then sell—a near perfect nirvana for the Greater Fool Trade.

One other quick but relevant point is this: Where does BTC come from? Its genesis story, well, kinda matters, no?

Did a mystery man named Nakamoto upload some code and then vanish into thin air with no one asking why?

Who truly holds the largest controlling share of BTC? Where's the head office, staff and the ownership ledger for this otherwise totally de-centralized, $2T asset?

I have no idea either. Just saying…

The Asset Question

As for being an asset, BTC provides no income, cash flow, dividends, or coupon interest. Everyone, knows this, and everyone also knows that the same can be said of physical gold.

Bitcoiners, of course, rightly don't care, as the money they've made is the key driver behind their "logic" and trade.

Candidly, few can fault such motives—but at least be honest: The BTC trade is precisely that—a *trade*, not an asset, store of value or currency.

Every blunt BTC investor I know has confessed the same. In short, deep down, they recognize that BTC is a risk asset not an alternative currency, store of value, or wealth preservation vehicle.

In case that sounds unfair, just watch what BTC does rather than what it (or I) says. In short, it acts just like a (highly) risk asset—hence its real appeal as well as danger.

Rather than “hedge,” protect or buffer portfolios when markets tank (as, say, gold or other hard assets do), BTC just tanks faster with each and every market moment of “uh-oh” and “risk-off.”

In March of 2020, for example, when stocks fell by 35%, BTC fell by 50% and the larger crypto pool in general fell by more than 60%.

Whatever critics of gold can say, and they can say a lot, gold never falls that fast, that hard and that violently because gold is not a risk asset, but a risk protector. In short, gold and BTC are very different.

Again, chose your motive rather than pick your side, as we are comparing two entirely different athletes.

But as for other key distinctions, gold, unlike BTC, does have some industrial use, centuries of jewelry utility and a 5000-year track record as a store of value from the planet earth (rather than blockchain code) that has saved far-sighted investors in one “uh-oh” moment after the other with eerie consistency.

But again, all the Bitcoin vs. Gold debaters know this too. That’s fine. Again: just pick your motive—speculation or preservation—and stop screaming at each other □

A Payment System?

Many also know that as a payment system, BTC’s heralded future (and proponents) over look other regulatory and *Real Politik* trends which don’t often make the debate floor or the hyped-headlines.

When it comes to future payment systems, it’s more than fair, as well as realistically cynical, to assume that governments will, when backed to a corner, get the final say of which digital currency prevails, and it’s most likely not gonna be BTC…

Central Bank Digital Currencies (CBDC) will most likely (and vastly) outpace BTC and slowly, over time, find their way into ever-more commercial and private uses, including currencies like an eventual E-Euro, E-Dollar, or E-Yen which will crowd out pseudo private (yet currently trending) currencies like BTC many years down the road.

This, of course, is not a fact, but merely a realistic assumption based on power-dynamics not fair currency markets. In the meantime, BTC can continue its rise, and alas, its *bubble*.

As for the big, mean governmental big boys, rightly or wrongly, fairly or unfairly, their regulatory crack down on BTC has yet to really begin.

First Mnuchin, and now Yellen and others, are already telegraphing their “ethical” concerns about BTC as a financial cover for human trafficking, drug sales, terrorist funding and other unsavory uses. This may or may not be sincere, as politico's are sadly driven by realism not moralism.

Such regulatory concerns, as well increasing AML and KYC rules on Cryptos to crackdown on their criminal uses, will eventually help "justify" the deflation of this BTC bubble, even if a Bitcoin ETF or even derivatives trade sends its price much higher in the interim.

Again, BTC can rise much higher, and BTC can make you rich (or broke).

For those who understand such risk and such reward, and for those (even better) who can trade (enter/exit) BTC carefully and intelligently, we boring executives of company storing "boomer rocks" in Switzerland are not mocking you.

In fact, we applaud the stories and wealth made on the BTC wave. Speculation, like preservation, each have their place in the diverse mind-sets and motives of the global investor class, so Bitcoin vs. Gold is a bit of a false dichotomy.

Different Uses, Different Views

But our offices do not represent nor champion wave assets or bubble markets. That's a mind-set and choice, not a bias, criticism or attack.

In fact, may investors can share both choices, owning BTC to speculate for wealth and simultaneously holding gold to preserve it (I've spoken to more than one BTC millionaire looking to buy gold *after* their BTC sale).

For these reasons, many of us (gold and/or BTC) are all growing tired of gold bugs mocking BTC and BTC fanatics mocking gold in the way a Yankees fan mocks a Red Sox fan (or a Manchester United fan mocks an Arsenal fan).

These angry debates and participants are essentially ignoring the fact that these are two investments playing on entirely different playing fields.

In short, the Bitcoin vs. Gold debate in mode today makes as much sense as measuring David Beckham's fast ball against Mariano Rivera's free kicks.

As for BTC, we candidly (logically?) see it as a speculative bubble asset poised to rise and then either deflate or "pop." That's a bias, of course, but one backed by the data, history and long-term trends we track.

Trade BTC as you will, but we personally (and without delusion) don't believe it will be a currency, "coin," store of value or "new gold."

Physical gold, of course, has its own data, history and trends—each far richer, deeper and more reliable than risk assets in general and bubble assets in particular.

We ultimately see gold as a preservation asset and have written ad nauseum of its confirmed role as such over countless years, cycles and historical turning points.

For the last decade or so, BTC has made many rich, and for the next decade or so, could make others even richer. That’s a speculative bet. Fine.

But for the last 5000 years, and for many more to come, gold will do what it *always* does: Preserve your wealth when other assets and “currencies” can’t.

That’s *not* a bet.