Is Bitcoin Gold 2.0?
In a digital age, bitcoin steps up to challenge gold as king of investments and wealth preservation.
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Introduction

Background
Gold. Undeniably the best form of money we’ve seen for the last 6,000 years. Nothing even remotely connected to investing has retained its value the way gold has.

Bitcoin. A revolutionary digital currency positioned to be the finance of the future and an appealing investment opportunity.

These two potential investments share a number of similar attributes, so much so that bitcoin is being considered as gold 2.0. It’s time we compared the undisputed king to a new, and possibly improved version called bitcoin, as both an investment driver and practical tool.

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First, Some Background

Gold

Warren Buffett, who, let’s be honest is pretty well informed when it comes to investing, claims that the total amount of gold, above ground, would fit into a cube of a mere 20m³! That’s a substantial claim; however it’s a difficult one to verify.

Thomson Reuters produces a gold survey every year. According to their survey, as of 2013, there was 171,300 tonnes of gold above ground. And guess what? If we were to set that in a cube, it just about equates to the 20m³ cube as claimed by Warren Buffett.

Let’s put this to scale. If we melted all the world’s gold found above ground and moulded it into a cube shape, it would cover the size of a Wimbledon tennis court and stand 9.8m above the ground.
But here’s the thing. Not everyone agrees with Warren Buffett or Thomson Reuters. Estimations of the total weight of all gold above ground vary from a more conservative 155,244 tonnes to a dramatic jump at 2.5 million tonnes.

At today’s gold prices, we’re looking at valuation differences between $6.68 trillion less than what’s currently in circulation, to over $7.3 trillion more! (That’s US$, not Zimbabwean!)

So by using the same example of placing a block inside a tennis court you can see the drastic difference in valuations.
Why the Uncertainty?

According to Timothy Green, a gold historian and published author, gold has been mined for in excess of 6,000 years, and the first gold coins minted around 550 BC. Owing to the incredibly long history of gold, all that industry experts can do is provide us with a “best guess”.

Jan Skoyles, of The Real Asset Company, offers an intriguing explanation that conveys why it’s perhaps so difficult to get an accurate indication of the amount of gold that’s out there in private ownership. “In Tutankhamen’s tomb alone they found that his coffin was made from 1.5 tonnes of gold, so imagine the gold that was found in the other tombs that were ransacked before records were taken of them”.

Skoyles goes on to point out that countries, such as China, are still not transparent about how much gold they’re mining. And then there’s the ongoing issue of countries like Colombia, for example, where there’s plenty of illegal mining happening.

Who’s bold enough to say Warren Buffett and Thomson Reuters are wrong to the tune of $100 trillion? That honour goes to the experts at the Gold Standard Institute, who believe if we emptied our bank vaults and jewellery boxes, we’d discover no less than 2.5 million tonnes of gold.
Part 2

On to The Battle

Durability
Portability
Divisibility
Fungibility
Limited Supply
Acceptability
A currency is measured against six prime characteristics in order to be recognised as a useful means of payment in exchange for goods or services. These are:

- Durability
- Acceptability
- Portability
- Limited Supply
- Divisibility
- Fungibility

In an effort to test the viability of bitcoin being the currency of the future, let’s compare it to gold, and test it against the six essential qualities of effective currency.
Durability

When it comes to durability, Gold is held above most other precious metals, with good reason. Gold that was discovered hundreds or even thousands of years ago is still here today. Because gold is a noble metal it doesn’t react with most elements, meaning it’s often found in its native form, lasting indefinitely free of oxidation and tarnishing. Gold miners and investors have little to worry about when it comes to degradation.

Every bitcoin that has ever come into existence lives on the blockchain. There’s a verifiable record of account for every unit. Copies of the blockchain exist on hundreds of thousands, if not millions, of hard drives around the world today, each holding a full record of account.

The decentralised nature of the Bitcoin network, and the computational power required to break the network, even momentarily, exceeds the world’s top 500 supercomputers combined. In fact, even with their combined power multiplied by 1000 it would still only be enough power to fool the network for 10 minutes in order to reverse a transaction that’s taken place. Thanks to this level of security, it’s pointless to argue that the durability of bitcoins is under any serious threat.

However, as robust as it may be, human beings have thousands of years experience in securing physical wealth like gold, and only 50 years (give or take a few years) securing digital wealth. For now, until we reach the future and gain more experience in the preservation of digital wealth, we’ll give durability to gold.

*Winner: Gold*
Portability

Imagine strolling into the Aston Martin dealership, running your hand over the lithe curves of a DB9, calling Edward, the salesman, over and announcing you’d like to purchase it. Edward dons a broad smile, extends a hand and says, “Excellent, Sir. May I run your card or do you have a cheque?” “Neither,” you respond, “I’ll be settling in gold.” Apart from the bewildered look you’ll receive from Edward with this statement, attempting a transaction like this using gold is going to be rather cumbersome.

Let’s consider that 1kg of gold might only fetch around £25,000. With a hefty price tag of a rounded up £200,000, you’re going to need 8kgs to pay for your new Aston. Sure, they won’t be too bad to carry, even if you’re only a light dumbbell user. But how safe are you going to feel walking down the high street, with clanging bullions in your bag? Time for personal security, perhaps?

Then there’s the issue of authenticity. Do you think Edward is simply going to take your word for it that your gold bars are genuine? For all he knows, you could be paying with gold plated chocolate, and it’s not a risk he can afford to take. No, he’ll have to have your bullions verified by an independent auditor who will check aspects like counterfeit, minting, weight, condition, and carat or purity. The costs of checking the metals authenticity, the required security measures as well as the storage of gold would be extensive, and you can guess who is going to need to fund that? Off to the London Bullion Market you go. More gold bars!
Bitcoin, on the other hand, is the polar opposite, and you don’t even need a physical wallet. If you’ve got an internet connection, then you’ll be able to access your electronic wallet. The blockchain records the transaction, and there’s no question about authenticity and security. It’s as simple as sending the bitcoins to the seller’s wallet, and the deal is concluded. Bitcoins are now more readily accepted in outlets across the globe, and the number of adopting merchants is growing from its current 82,000* rapidly. Using bitcoin as your payment means you needn’t carry cash (or gold for that matter), you can avoid currency exchange charges, and won’t have to wait for lengthy clearance times.

A bitcoin can be sent across the globe as easily as sending an email, allowing users to send capital across borders, without permission, for the first time in history. The impact this will have on global remittance markets is profound.

Lugging gold bars around in order to complete transactions isn’t a viable option, whereas bitcoins are ‘carried’ virtually, making them the clear winner when it comes to portability.


Winner: Bitcoin
Divisibility

Gold bullions are divisible, but you’ll require the services of a skilled goldsmith to break them down. Gold can be subdivided down to 1/31 of an ounce, which is the equivalent of a gram. Depending on gold value of the day, you’ll be looking at around £25 to acquire the smallest denomination of 1 gram.

You feel like celebrating (and showing off) your impressive new wheels, so you decide to head down to your local club to enjoy a good whiskey. Besides the attention you’re sure to attract by parking, you’ll have to leave the barman a rather impressive tip as you’re not going to be getting any change from your 1 gram gold bar. So, yes, while it’s physically possible to break gold down into fragments, it’s not entirely practical for the use of monetary based exchanges.

A single bitcoin, on the other hand, can be divided up to one hundredth of a million. This atomic portion is called a ‘Satoshi’, named after the creator(s) of bitcoin. It’s easy to divide to eight magnitudes on with your bitcoin wallet, fees are optional and there are no minimum account balances imposed on bitcoin wallets.

There is little in the way of competition here, with bitcoin owning divisibility.

Winner: Bitcoin

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Fungibility

Currency has a standardised value. A £1 coin in your pocket is worth the same as the next £1 coin. Now, gold, on the other hand, faces a long list of issues that can affect its value, including:

- the carat or purity
- the mint it came from
- it’s weight, and
- it’s measurements

Gold coins carry a premium and their price often substantially exceeds their true value in weight. Even minted coins that have a plentiful supply will fetch higher prices for the minter’s mark and design.

Counterfeiting is another critical risk factor when it comes to fungibility of gold, as it’s been known to be forged using other types of metals.

Bitcoin in comparison is steadfast and stable. The bitcoin faces none of these fluctuations, design elements, desirability, cheap copies or any of these other concerns.

Every whole bitcoin is worth the same as the last, and each mined coin is recorded on the blockchain. The mere computational power needed to create counterfeit coins (reversing a payment or double-spending) renders the exercise futile as the level of power is simply not available. Even if it were to be built, the excessive cost required and minimal chance of success, are influential deterrents.

As gold’s value can be affected by numerous factors, we can safely award fungibility to Bitcoin.

*Winner: Bitcoin*
Limited Supply

It’s been predicted that the unmined reserves for gold will be depleted by 2033. But these are only known reserves. There are vast areas of Earth that haven’t been explored for the purpose of mining gold, and you could, quite literally, be sitting on a gold mine. It’s not entirely inconceivable that there may be untapped gold reserves somewhere other than existing known areas, and if unearthed, gold’s value may diminish. The supply and demand for gold sways frequently for various reasons. World news, for example, is a contributing factor; anything from civil unrest in a mining area to financial uncertainties around the globe can result in changes to its supply and demand.

Bitcoin’s supply isn't open to, or built on speculation. We know, without a shadow of a doubt, that there will only ever be 21 million bitcoins in existence, and we can predict the exact date that the bitcoin supply will end in 2140. We can calculate the number of coins entering the economy each day, week or month as the rate of creation is a known and consistent value. We can anticipate supply, the varying factor is simply the demand.

While bitcoin and gold are both strong contenders in this category, what we know about gold supply is based on speculative information. Therefore, we will give this one to bitcoin, where information is more factual in nature.

*Winner: Bitcoin*
Acceptability

Edward wouldn’t have been able to accept your gold payment, and neither will any other business. The verification, storage and security processes required to trade in gold are notable reasons not to. Another factor being that you can’t make denominations small enough to be able to expect change from $45 worth of gold.

There are currently more than 82,000 merchants around the world accepting bitcoin as payment. This includes the likes of Amazon, Dominos Pizza and PayPal. Moreover, bitcoin can be readily exchanged for an alternative currency should the need arise. When it comes to acceptability, without hesitation, bitcoin takes the crown.

*Winner: Bitcoin*
Part 3

Conclusion
What we know about gold is sketchy at best. We can’t and most likely, will never be able to, verify any of the claims. There’s no accurate record of account (ledger) of gold from the days of the Pharaohs to modern day use. And even in modern day mining, we are still operating based on educated guesses without an understanding of activity, location or extent of illegal mines. Furthermore, we can’t even remotely begin to estimate or predict the reserves that remain secure underground.

While collectors may still hold a candle for gold, for both its potential investment and aesthetic value, as far as world currency and banker’s vaults goes, it may well be a dying tradition.

Bitcoin, in comparison, is a predictable, truth-driven system. Thanks to the Bitcoin public ledger (the blockchain), bitcoins have a limited, predetermined and incorruptible supply, and we know that there will only ever be 21 million coins in existence. They have a scarcity in the highest measure, as the only variable for bitcoins is demand.
It may be too early to suggest that bitcoin will replace gold in its entirety, but it does stand to be a strong contender as a potential alternative to currency. An alternative, which unlike money, is not impacted by centralisation, banks, governments, quantitative easing, printing, or counterfeiting. And by beating out gold in five out of six categories of utility, it’s our fundamental belief that in the coming years, you will find yourself using bitcoin for virtually any payment you wish to make.

In light of this fact, as a future store of value, bitcoin has everything going for it to become the future king of stability and wealth preservation. Move over gold!