Pomegranate Financial

Refresh & Simplify
Your Financial Life

Newsletter

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# Is Crypto A Productive Asset?

What does it mean to invest in a productive asset? Stocks represent ownership in a company. Bonds represent lending to a company. Real estate investments represent renting out space to tenants. Farmland represents producing a good to sell or land to raise animals. When thinking about your investments - it helps to think of them as productive assets. Something that will help generate added value. A group of companies such as those in the S&P 500 have proved their added value, at least in the past.

For example:

- Apple - produces phone's, tv's, and entertainment with technology at the heart of what they provide.
- Coca-Cola - produces various drink products that billions of people enjoy.
- Morgan Stanley - produces financial services to individuals and companies to manage capital effectively.
- Microsoft - produces computers and software millions enjoy using.

When you purchase a share or bond for those companies, then those companies start putting your money to work. In exchange, you hope that they use the money to increase the value of your share, promise a return on your bond, and increase in the value of real estate or profits.

So when you purchase cryptocurrency. Is crypto producing anything? What value does crypto provide?

It depends.

I often compare digital assets/cryptocurrency to software companies. This software through the blockchain has created a new virtual world of property rights. Tokens and cryptocurrency represent how property is stored, valued, and shared in this virtual world. There are digital pieces of artwork with shares of ownership or digital pieces of real estate. Or think about where everyone wants to hang out in the real world (Disneyland) and then put that in context for the virtual world (Meta). Often the difference between digital assets and regular software companies is whether they are centralized or decentralized.

Let's break down a few different digital assets:

- **Doge**
- **bitcoin**
- **Ethereum**
- **NFTs**

**Before reading on  - it may helpful to learn a few new words.**

**Proof of Work:**
In the days before computers, handwritten ledgers were used at banks to make records accurately reflect transactions in your savings account. Then came along computers and people at the bank would record your transactions on a digital ledger. Banks, run by people, would verify with other banks that these transactions were authentic. Now instead of banks -  computers use decentralized software and algorithms to verify that the transactions are authentic: that's Proof of Work.
These computers are called miners. The first miner (computer) processes the cryptocurrency transaction made and then all the other miners have to verify that the transaction is recorded and accurate. That record can then be seen on all these computers (miners) throughout the world.

**Decentralized:**
Instead of a hierarchical or centralized organization, you have one that is spread out across multiple people. Think of a company with no leaders, but rather everyone who participates has equal power/votes.
I like to imagine a handful of software developers that write code to create a software that is then governed by the users (algorithms) rather than decisions being made at the top.

## Dogecoin:

Dogecoin provides a payment system to exchange money. It lives on the blockchain and was set up to serve as a peer-to-peer digital currency. Think of Venmo, but without the company behind it. A decentralized network of users who use their computers to verify transactions (proof of work). However, it was created as a joke. It's as if I created a new currency with thousands of different people in the world with the face of a dog on the currency. Then we all traded the paper currency together for our dollars (or other currencies). It became such a fad that more people wanted in on getting the currency which helped increase it's price. Fads die away unless they can provide real value over the long-term.

## bitcoin:

Bitcoin is also a payment system/peer-to-peer digital currency just like Dogecoin. It was created before Dogecoin and is viewed/used by more people as a legitimate form of currency than Dogecoin. Some of the main differences are bitcoin has a limited supply where Dogecoin has an unlimited supply. 900 new bitcoins are created everyday whereas almost 15 million Dogecoin is created every day. bitcoin is seen as the original and most legitimate cryptocurrency used as a payment system. It is a digital currency that millions of people use to hold their money. For example, many Argentines use bitcoin instead of their country's currency because of the Argentine peso high inflation averaging 100+%/year.

## Ethereum:

Ethereum is blockchain software that allows you to build software on it within the blockchain. Think of the software that enables you to download apps and games on your phone - Ethereum is sort of like that software, but on the blockchain. What's the difference? The apps built using Ethereum are decentralized and involve smart contracts. In short, Ethereum is a decentralized software company that helps others applications be created on the blockchain more easily. Ethereum is an ecosystem that allows for more self-driving businesses.

## NFTs:

NFTs are digital artwork, books, etc.

What's the difference between a jpeg image on your computer and an 'NFT?'

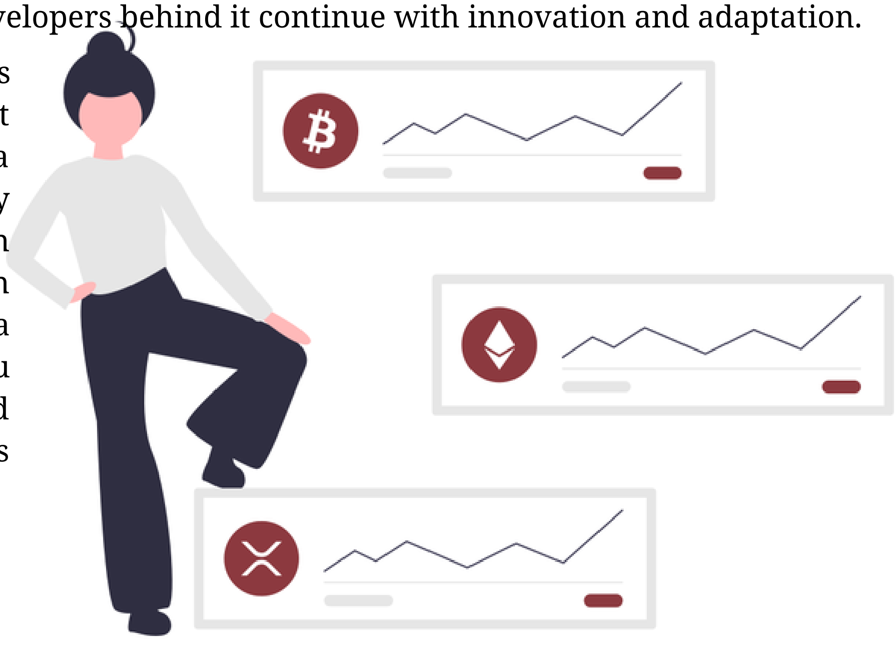
It's the software code.

The jpeg image that is an NFT is coded onto the blockchain. For example, OpenSeas is an NFT marketplace (decentralized software) run on the Ethereum blockchain. By being on the blockchain the NFT is more secure and less hackable. It sets up an ecosystem that allows for artists and authors to always benefit from their art/books by receiving royalties every time their work is sold. Yes, you could just copy a jpeg and call it yours (just like I did with my NFT dinosaur I created). But everyone could verify that my copied jpeg is not 'authentic.' Think of it as someone claiming to have an authentic Van Gogh painting, but everyone can see the watermark showing it's a fake.

**In summary,**
Do not feel bad if all this seems confusing or pointless. Cryptocurrency/digital assets and blockchain technology are new, complex, and difficult to understand. It takes time, practice, and a lot more repetitive education to see the value. Most new technology faces the similar criticism digital assets has received. Think of the ipad, internet, automobiles, etc. There are countless quotes by famous people discounting new tech.

**Here's the takeaway:**
When you purchase cryptocurrency as an investment, then you are putting your faith in the decentralized technology it provides. You shouldn't do so because of a fad or because of Jim Cramer. You are hoping the software stays up-to-date, and that the developers behind it continue with innovation and adaptation.

Cryptocurrency is very new. Bitcoin was created only 14 year ago. Certainly not enough time to develop confidence over a group of digital assets. This is why any investor should tread lightly with cryptocurrency and understand the high risks and volatility. Even if something is a productive asset does not mean you should invest in it or only it. Diversified and efficient portfolios invest in hundreds of companies, never just one or two.



Blake Jones, CFP®, EA
PomegranateFinancial.com
PomegranateFinancial@gmail.com