Josh Brown goes down the bitcoin rabbit hole. Here's his early take

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You walk halfway across Rivington Street and in the middle of the block there's an alley leading north, and then, inexplicably, it curves northwest. It's remarkable in that on the Isle of Manhattan there aren't any alleys. And this one is whimsical. Lights are strung overhead and artwork decorates the sides of the buildings as you make your way through. And then, at the end of Freemans Alley, you come to a tucked away restaurant in the back corner. It's called Freemans (what else?).

If the setting for the recent crypto currency summit was quirky, the conversation was downright otherworldly. The rules for how things work in the crypto realm are being written in real time. We pick up a phrase or a bit of terminology, and we begin to use it authoritatively moments later – as though we'd been doing so our whole lives. We're hanging onto people's words who've become experts in a thing that didn't exist just a few years ago.

For a couple of hours I had stepped into Wonderland, the moveable center of the crypto currency universe. Seemingly everyone who purports to understand what's going on is up in this second-floor private dining room. I have a feeling this event will be remembered and talked about for a long time in certain circles.

Among the three dozen or so attendees – traders, investors, engineers, thought leaders, hedge fund managers and fintech entrepreneurs. The event's organizer, my pal Patrick O'Shaughnessy, is the common thread linking us all together. Only he could have brought this group together. "We're overbooked tonight," he tells me. "When I sent out the invites, not a single person said no!" Patrick's three-part podcast, *Hash Power*, is probably the most important document of this moment of time. Everyone in the crowd was deferentially quoting from it. Many of the people there had appeared on it themselves.

A panel discussion led by four of the most important voices on crypto currencies in the country ensues. We meet the two founders of Blocktower, a leading crypto hedge fund. They are former University of Chicago Endowment portfolio manager Ari Paul and former Goldman Sachs vice president Matthew Goetz. Young guys, but seasoned in trading and banking. Just to give you an idea of how influential they are, they have firms like Union Square Ventures and Andreessen Horowitz as LPs. Let me repeat that – not as investors in their fund company, *but as LPs*.

Chris Burniske is also on the panel. His book, which was just published today, is called Cryptoassets: The Innovative Investor's Guide to Bitcoin and Beyond. It could become a bible of sorts for people coming from the world of traditional assets and trying to assign valuations to all the coins and tokens. Chris doesn't hedge at all when he states that we are looking at the birth of a new asset class. "This is not an asset class based on cash flows so DCF models aren't going to work," he tells us. His own formulas are more akin to the way the monetarists think about currencies: MV = PQ (M is the money supply; V is velocity — the number of times per year the average dollar is spent; P is prices of goods and services; and Q is quantity of goods and services). He concedes that we haven't nailed down the velocity part, which is going to become important to these calculations.

Rounding out the panel is someone who, in my view, could become the most important person in the room of things develop the way I think they could. Her name is Elizabeth Stark, the co-founder and CEO of Lightning Labs and she is undeniably a rock star. Elizabeth is building the so-called second layer on top of the block chain for Bitcoin, the user interface that will allow for transactions to be more facile for the masses. "Right now, every transaction in Bitcoin gets recorded on 100,000 computers around the world. That's the power of the decentralized network – the proof of ownership of the currency. But does that make sense for me buying a cup of coffee? Do 100,000 computers have to use their computing power to update the chain for something like that?" She's building the solution for this problem.

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Danny Moses is in the house. You might remember his character from *The Big Short*. He's larger than life in person, just like in the movie. Fidelity had a pair of representatives there too. The massive investment firm has been at the forefront of experimenting with this technology – Fidelity CEO Abby Johnson has a mining rig running right in her office and the firm was the first online broker to allow clients to pull their crypto holdings directly from Coinbase into their portfolio holdings page.

During dinner I was regaled with amazing tales from my new friend Nolan Bauerle from Coindesk. If you're not familiar, Coindesk is aiming to be a cross between the Bloomberg and the Business Insider of this asset class. I'm appearing at their first investment conference late next month in New York City. Nolan, a banking expert who was the first to bring the technology before the Canadian Senate, was sitting at the table when the idea for Ethereum began to take shape. He's probably the most knowledgable and entertaining person I've ever spoken with on this topic.

I also bumped into my old buddy Leigh Drogen, the founder of Estimize. Leigh, like me, has begun to accumulate some digital assets and is fascinated by the emergence of the whole thing. Leigh has been "living 15 minutes in the future" for a long time and I trust his instincts a great deal. He and I see eye to eye on a lot of this stuff. We're both reasonably skeptical and confused and bullish at the same time right now. Anyone who doesn't admit to being at least two of those three things at this stage in the game is lying to themselves.

Just an FYI, I got into BTC around $2300 this July and have been alternately skeptical and bullish pretty much every day since. I plan to stay that way. Read about my first purchase here.

Disclaimer: If you take anything I say here as investment advice, you're insane. Do not place any trades based on my remarks here, I don't know anything about this "asset class" and probably no one else really does either.

Okay, so below just some random things I wanted to share from my visit to Wonderland. I'll quote the person directly if I remember who said it. If not, I'll just drop the quote or paraphrase. I think this is all good food for thought.

What's the play?

One of my big takeaways is that the smart money (I know, LOL, but bear with me) want to be making predominantly beta bets at this

stage in the game. They want to be long the coins more than they want to be betting on companies themselves.

There's a concept called *Fat Protocols*, which goes something like this: Tim Berners Lee, who effectively invented the World Wide Web in 1989, didn't really reap much of the financial benefit for his creation. All the monetary rewards went to the companies who built things on top of the HTTP protocol or the FTP protocol etc. Yahoo, Google, AOL, Facebook – those were the winners. The protocols that actually run the web didn't retain any value in and of themselves. The Fat Protocols theory says that in crypto currencies it will be the other way around – most of the value will accrue to the network itself (in the form of the coins' values) and there will be a very thin layer of value on top for companies that create things. I don't know if that will be true, I'm just passing it along.

Which coin?

So which coins or tokens are worthy of investing in? The consensus still seems to be that Bitcoin is the one. The original Bitcoin people look down their noses at the Ethereum people. "What's your problem, why do you need to do this?" they sneer, referring to ETH people as "Eth-heads" in message boards, from what I'm told. Ethereum's fatal flaw as a bet on upside is that the amount of ETH will not be capped. Bitcoin will only ever have 21 million outstanding units, hence the scarcity bet being made now. With Ethereum, there isn't going to be scarcity. Which is why some people are saying its current price "makes no sense."

From what was explained to me, the only reason for the run up in ether is that you need it to participate in ICOs (Initial Coin Offerings – an alternative to a traditional IPO where a company raises money via Ethereum). Bitcoin is "dumb" in that it can only be used for exchange or storing value. Ethereum is said to be "smart" because it can be used to codify one party's responsibility to another, like a contract. So all the hedge funds and traders flipping ICOs need to first buy ETH coins. Bitcoin doesn't get used for ICOs. Yet.

I won't spend a lot of time on Bitcoin Cash, which was created from the fork this summer, other than to relay to you that everyone says it's sh--. The way I heard it, the fork came about because a US ex-pat living in Japan whom everyone refers to as "Bitcoin Jesus" wanted it that way. Bitcoin Jesus (real name Roger Ver) went around funding a lot of the development for crypto and blockchain in the beginning of this decade as it was taking off. He's hugely influential in the community. Read about this here.

WTF is the deal with ICOs?

So the derision among this crowd for ICOs was palpable – they're either a joke or a scam or both, depending on whom you talk to. Not

all of them, but most of them? Basically, ICOs claim to have a utility and, as such, their backers claim that they do not meet the traditional definition of a security: a security is just an investment, whereas a token can actually be used.

What utility? Let's take the example of Filecoin, which is a token built on Ethereum. Filecoin tokens can be used in exchange for computer storage, a scarce resource. The token acts as a contract between you, the holder, and the people who are offering computing power or space. This is an example of an ICO that can actually be held up as being useful. But overall, to reiterate, it seems that the real people want to make bets on the blockchain increasing in size, which is an upside bet on the coins, not the companies or services.

It's so early...and already too late

I was talking to guy who was like "I could launch a $200 million hedge fund to trade crypto tomorrow if I wanted to." He's got people banging down his door to get them into the game. I was surprised to hear we were already at this point. I joked and told him "It's too late. You're already underperforming your benchmark."

But it's not late. The percentage of people in this world who are even aware of crypto currencies or their potential is effectively zero. The asset class itself is only $170 billion as of this week. That sounds like a lot, but compared to other asset classes or commodities or currencies, it's a joke.

The stampede is coming

I mentioned a few weeks back that you can practically smell it in the air – the big money is coming into this space. I can't imagine how that doesn't blow the price up into the stratosphere. For all of Jamie Dimon's protestations, his firm is experimenting with cross-border transfers using blockchain. So is every other major financial institution – or at least they're thinking about it and planning it.

The big rumor going around is that Goldman Sachs is going to launch market-making in crypto currency for their clients in the third quarter of 2018. I don't know if that's true or not, but multiple people who don't know each other are saying it. And why wouldn't they? If that's what their customers are asking for (and they are), then of course they will. This is the institutionalization of something that right now is still on the fringes of finance. What will that mean for the prices of coins?

Pensions and endowments

Another thing that was kind of hinted at – pension and endowment money dipping a toe in. We're talking about trillions of dollars in these pools. If even 1% of that starts looking for allocation, forget about it. Ari Paul from Blocktower says the pensions aren't coming in

until the custodian issues are worked out. With a traditional investment like a stock or a bond, your big risk is that they will drop in value. With crypto, you have that issue too, but then you have an added risk that you don't have with stocks and bonds: Your holdings can disappear from theft! Nobody worries about their stocks being stolen. Everyone worries about their coins being hacked. Solidifying the custody system is going to take time.

Ari mentions that someone asked him "When will the University of Chicago buy in?" His reply is "Six months after Yale does." Everyone laughs. But it's true. The way Ari looks at it, right now, if someone at a college endowment takes the risk upon his or herself to buy Bitcoin, they face ridicule or a firing. But eventually, that career risk flips around the other way. Imagine someone from the Yale Endowment makes a splash in Bitcoin and gets written up everywhere for how forward-thinking they are. All of a sudden the CIOs at all the other endowments are being questioned "Why the hell didn't you do that? Did you even look at it?" This is how manias are fueled, by the way – institutional a-- covering. They all did this with hedge funds in the 90's and commodities in the 00's. It hasn't begun yet in this arena.

This is me talking – a major endowment announcing Bitcoin investments coupled with Goldman launching an exchange could be light's out. That could be the sequence of events that causes a stampede.

"Isn't this sketchy?"

Elizabeth asks this rhetorically and then answers her own question. "Yes, of course it is." As bullish as she is about building out this revolutionary new way to store and exchange value globally, she still thinks there will be major crashes up ahead. But she points out that crashes are a feature of all markets and that lots of sketchy transactions are being carried out in US dollars too.

One really important point – every one of the four panelists told a story about how when they were first approached with the idea of Bitcoin, they laughed at it. All of them are converts. In fact, someone said "There is not a single person I've ever come across who has done a deep dive and didn't come away bullish."

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I'll let Leigh Drogen have the last word here: "If you read the book *Sapiens*, then you recognize this as a religion – a story we all tell each other and agree upon. Religion is the adoption curve we ought to be thinking about. It's almost perfect – as soon as someone gets in, they tell everyone and go out evangelizing. Then their friends get in and *they* start evangelizing."

He's right. Bitcoin is like crossfit – the moment you get in you can't shut your f***ing mouth about it. I guess I'm guilty of this as well. I just wrote 2500 words about it.

George Soros in 2009: "When I see a bubble forming, I rush in to buy, adding fuel to the fire. That is not irrational."

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