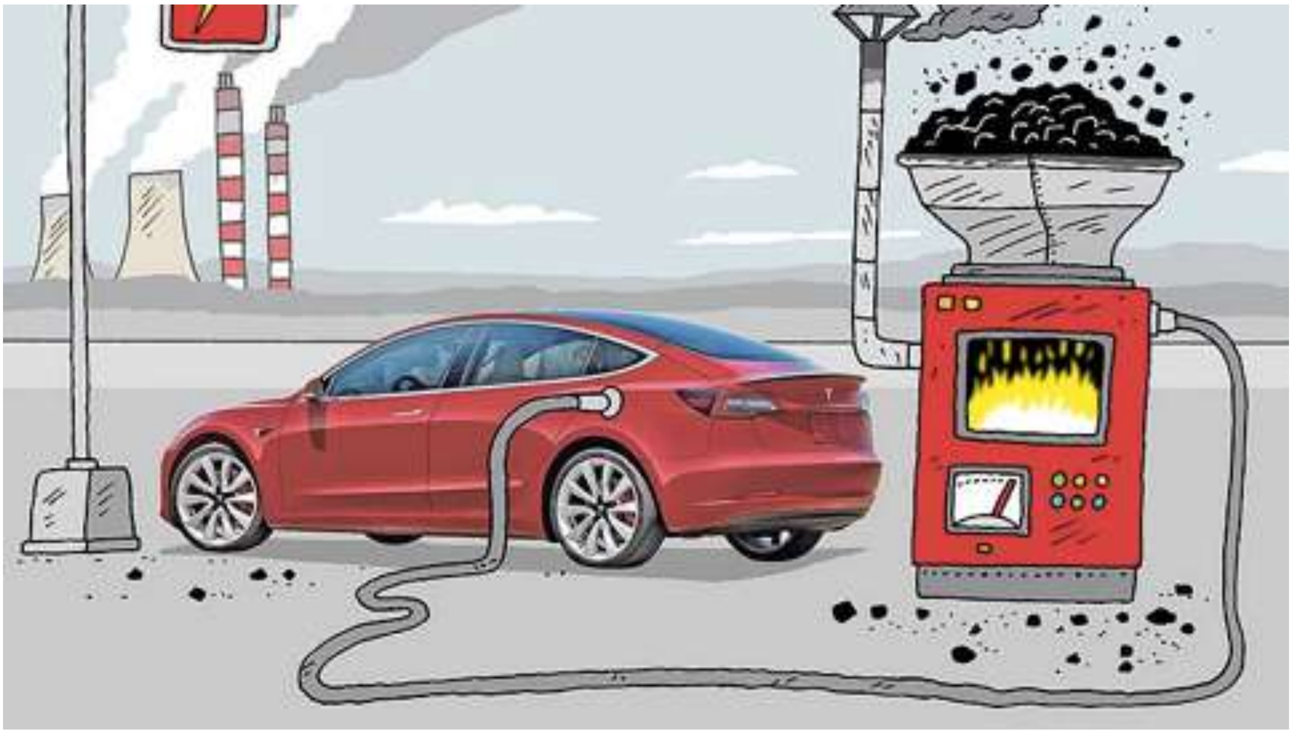
The New Coal Fired Tesla

Capitalising on Digital Trends



One of the basic issues discussed in detail by financial advisors when addressing client needs, is 'Attitude to Risk', or 'Volatility Tolerance'.

This is key to building any portfolio to ensure the investor is comfortable with both performance and volatility. It is also a topic reviewed on an on-going basis, to take account of changing client circumstances and attitude.

It was with some interest, therefore, that I noticed an article from Mode Global Holdings (MODE), a bitcoin-focused U.K. fintech with tens of thousands of users, suggesting the majority, 79% of retail Bitcoin investors are men, mainly under the age of 30.

This compares with 56% / 44% split between the genders in the wider investment world.

Most of these bitcoin investors are likely to be far more unwilling to lose money on their investment than the volatility in cryptocurrencies suggests they should be. They are, never-the-less, much more likely to rush into speculative trends than women or older investors.

This ties in with the findings of ‘Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment’.

It is a study of financial behaviour, written by University of California professors Brad M. Barber and Terrance Odean in 2001.

If you are bored enough by Covid-19 lockdowns (or smart enough) to be interested in the details the published article is available here.

Last week, research published by British broker AJ Bell, provided a bit more insight on the behavior and outlook of people who flock to bitcoin and other crypto assets.

Based on a survey of 1,134 people carried out in January 2021 by market research agency Find Out Now, 58% of crypto investors don’t have tax-efficient savings, or pension plans. Only 50% of them had a savings account of any kind, and only 17% had a general investment portfolio.

“Our research suggests that a generation of investors have leapfrogged traditional savings and investments and jumped straight into the deep end by buying cryptocurrencies,” said Laith Khalaf, an analyst at AJ Bell.“Consumers seem to be playing Russian roulette with their money on the cryptocurrency markets.”

Although institutional money from Paypal, Blackrock (2 funds offering small holdings of Bitcoin futures), and Tesla has helped increase bitcoin’s value, retail investors are the main driver of the bitcoin trend.

This is the same group targeted by tabloid headlines suggesting that bitcoin will hit $1 million and warned by regulators in the UK that they “should be prepared to lose all their money” on crypto investments.

To me, it seems more than likely that many of the male 20-somethings invested in Bitcoin have no real understanding of the true volatility of cryptocurrencies.

The AJ Bell report said ‘The vast majority are also uncomfortable with losses that may come their way, with 30% of people saying they wouldn’t be comfortable losing any of the money they put into crypto.

Only one in four cryptocurrency investors would be willing to lose 75% or more of their investment, which isn’t beyond the bounds of possibility, given the volatility of the asset class’.

As for why they bought crypto in the first place, the AJ Bell research suggests the retail investor frenzy has been driven by a feedback loop of hyper-enthusiasm: 34% of those surveyed said one of the reasons they bought crypto was to ‘capitalize on digital trends.’

In my opinion, that is just about vague enough to mean ‘It seemed like a good idea in the pub’.

And for all the young, clean, green ethical investors, a thought to ponder; - Bitcoin is “mined” by computers solving complex calculations which get gradually harder over time.

There are currently 18.5m Bitcoins in circulation and the final ones are expected to be mined in 2140.

However, at an estimated 121.9 Terawatt hours per year, bitcoin now requires more electricity than Argentina, the United Arab Emirates or the Netherlands did for all of 2016.

According to the University of Cambridge’s calculations, one year’s worth of bitcoin electricity consumption could power all the tea kettles of the U.K. for 27 years.

That’s a lot of tea breaks! About two-thirds of all bitcoins are mined in China, and a third of that is in Xinjiang, which has cheap coal power. Yet, Elon Musk’s Tesla, for all their talk of a clean, environmentally healthy global future, happily invested US$1.5Billion in Bitcoin.

Now, I am not for a second, suggesting nobody should buy cryptocurrency.

I am, though, suggesting that one should be aware of the risk to capital, and the ESG (environmental, social and corporate governance) impact; and fully understand the difference between investing, speculation, and gambling…

…before placing your purchase order (or your bets).