

Diversifying

MAY 9, 2022

Making Crypto Less Cryptic



Speakers

Delyanne Barros, FTX Ad, Paula Pant, Trish Petak, SNL Skit, Music, Mars Neveda

00:00:02

Delyanne Barros

If you watch the Super Bowl this year, you've definitely heard about crypto. There were so many ads, people called it the crypto bowl. Take this one for the exchange platform FTX.

00:00:16

FTX Ad

I call it the wheel? I don't think so. What does it do?

00:00:22

Delyanne Barros

That's Larry David. Yeah, the guy who wrote Seinfeld and made Curb Your Enthusiasm. He travels through time dismissing some of the most important inventions out there. The toilet coffee, the light bulb, the Constitution.

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FTX Ad

One of the worst ideas I've ever heard.

00:00:39

Delyanne Barros

Until he shows up in the present in an office.

00:00:43

FTX Ad

Like I was saying, it's far too safe. An easy way to get into crypto. Yeah, I don't think so. And I'm never wrong about this stuff. Never.

00:00:52

Delyanne Barros

And then the screen says, Don't be like Larry. Don't miss out on crypto. If you happen to miss the Super Bowl ads, you might have heard about crypto from Reese Witherspoon, Kim Kardashian or even Elon Musk. New York and Miami are battling over who's going to be the crypto capital. Fidelity now offers Bitcoin as an investing option for your 401k. Crypto is everywhere, and companies like FTX are trying to leverage the hype to get people to buy it. But hype is not a good reason to make big financial decisions. While there are people who have made millions in crypto, there are also people who have lost their life savings. So today we're here to break it all down for you. What exactly is crypto? Does it have value beyond the hype? And is it here to stay or is it a passing fad? I'm Delyanne Barros. This is Diversifying.

00:01:52

Delyanne Barros

So crypto, it's digital money that doesn't have any kind of government backing. There are a lot of crypto bros out there and a lot of fanatics who treat the crypto market like a casino. I wanted to have a measured conversation, so I called up Paula Pant.

00:02:08

Paula Pant

I am the host of a podcast called Afford Anything. The concept is that you can afford anything but not everything. Which means that every time you say yes to something, you are implicitly saying no to many other things. But often those things are invisible or unconscious. We don't realize what we are turning away, and that doesn't just apply to money. It applies to any limited resource your time, your focus, your energy, your attention. So affording anything is all about how to make better, deliberate decisions.

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Delyanne Barros

I can't think of a better person to talk about this controversial topic, which I still find controversial then, Paula, because I know she's going to give it to us straight and she's going to tell us the pros and cons, and it's not going to be this, like, overhyped conversation.

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Paula Pant

Exactly. Exactly. And and it's unfortunate that oftentimes the antics of the people who support crypto the most get conflated with the assessment of crypto itself. Right. And so if you separate the messenger from the subject matter, you can then take a look at crypto itself absent the people who are its biggest fans who can. Sometimes those people can be so far gone that it's a turn off.

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Delyanne Barros

Part of what makes crypto so revolutionary is the technology behind it. Blockchain. So we have to start there.

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Paula Pant

Blockchain is the technology that underlies all cryptocurrencies, like Bitcoin and Ethereum. Any type of cryptocurrency is built on the blockchain network. It is a much better system of recordkeeping than anything that we currently have.

00:03:46

Delyanne Barros

I know record keeping sounds super nerdy, but it's important. Our society runs on records, financial records, legal records, health care records. Blockchain is pretty much just a public, transparent digital ledger system, but the way it's run is groundbreaking.

00:04:05

Paula Pant

It's a distributed network. And what that means is that it isn't in any one centralized place. It lives across a whole network of computers globally. So assuming that you had sufficient computing power, you could be tapped into this network and this data could live on your computer. In addition to the countless, many, many, many other computers all across the globe that all have this information. And what that means is that there can't be any centralized takedown. Right. If you think about a financial institution. Right, a major bank, they decide what their own security protocols are. And we have no idea unless they choose to share it with us, we have no idea what they've decided. We just hope. That that bank and their board of directors are making good decisions. But what if they haven't adequately backed up their information enough? Right. We're all at risk by virtue of having this distributed network all across the globe that doesn't live in anyone's centralized place. There's added security.

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Delyanne Barros

I'm a huge fan of the technology. It sounds like you are, too. I think that there's a lot of potential for it. I tell people all the time, I'm like, I believe in the technology. Where my skepticism comes in is when we're talking about now cryptocurrency going to the next level, right? So what is cryptocurrency?

00:05:29

Paula Pant

So cryptocurrency is just a digital currency. Now, if you think what is currency, right? Currency is just a medium of exchange. Any type of currency, U.S. dollars, British pounds, euros, any currency. It exists because we need a standardized medium of exchange so that if I want a shirt and you want a bag of carrots, we don't have to barter for it because that's going to be incredibly inefficient. Historically, currencies have been issued by governments, and they are backed by the full faith and credit of the issuing government. And historically, the way that people have made transactions, at least in recent modern history, is that if I go into a shop and I want to buy a T-shirt, that transaction does not just take place between myself and the shopkeeper. That transaction takes place between myself, the shopkeeper and the credit card issuer, plus the financial institution that is backing that credit card issuer. So if I have a Visa debit card, a Bank of America Visa debit card, for example, then that transaction is taking place between me, Visa, Bank of America and the shopkeeper. There's four entities involved in this transaction. Now what cryptocurrency tries to solve is number one. It tries to cut out the middleman by removing the financial institutions from that transaction so that the transaction can be directly between me and the shopkeeper without any financial institutions getting involved. And it does so by creating a certain type of currency that is simply a standardized medium of exchange, just like any other currency. But this currency is not issued by a government, and this currency does not have to live in a financial institution.

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Delyanne Barros

All right. Now I'm understanding. Okay, we're cutting out the middle, man. That's better for me. That's better for the shopkeeper. Sounds like it's better for everyone all around. What kinds of cryptocurrencies are there and why are there so many?

00:07:38

Paula Pant

Well, so there are many, many different types of cryptocurrencies. Just like if you think about foreign currency, right? If you think about the currencies of the globe, there are so many different types and you've got certain world currencies that are more dominant than others, more widely accepted than others. Right now, the U.S. dollar is the world's reserve currency. There are many other currencies that are backed by large, stable governments that tend to be widely accepted. And by contrast, there are also smaller currencies that are in use by fewer people or that are backed by governments that are viewed as less stable. And you take that whole universe of currencies, you put them together and you have all of the world's currencies. Right. Take that same model and apply it to the digital world where you will have certain currencies like Bitcoin and Ether, which is the currency that powers the Ethereum network. Those are the biggest currencies as of right now. But you also have lots of kind of mid-size currencies. You've got Cardano, you've got Solana, you've got Stellar Lumens, you've got Shiba Inu and Dogecoin, which, you know, Dogecoin was the one that was popularized by Elon Musk. It was actually started as a joke. Right. So you've got some of those sort of mid-size currencies and then you've got a lot of very, very tiny currencies as well.

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Delyanne Barros

To reiterate, there are a lot of different cryptocurrencies out there, some with huge followings and some with smaller ones. They all come together to make up a sort of world of digital currency.

00:09:06

Paula Pant

And just like in the world of government backed currency, the larger currencies are considered a little bit more safe, like the U.S. dollar is probably not going to collapse unless the entire U.S. financial system collapses. And if that were to happen, then we'd all have much bigger problems, like the whole world would be suffering if that were to happen. Versus I was born in Kathmandu, Nepal. The Nepalese rupee is a much smaller currency, and about 20 years ago they were embroiled in a civil insurgency. There was some political instability that happened. You know, when those types of shockwaves happen, the impact tends to live only in that one particular currency and it doesn't send out global ripples. That same thing happens in digital currency as well. A shock to Bitcoin might impact many currencies across the spectrum, but a shock to a smaller currency wouldn't have that same impact moving up the chain.

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Delyanne Barros

See, I understand it when a currency loses its value. I'm from Brazil, so same a country that is riddled with drama and corruption and all kinds of shenanigans. So unfortunately, the real, which is the currency is constantly being, you know, devalued because of all that's going on. I can tie a reason to that. Right. I understand why, but I don't understand why does Bitcoin lose half of its value within a week?

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Paula Pant

All right. So when we talk about how Bitcoin is valued, any given cryptocurrency has no value other than the value that we all collectively assigned to it. So if you're investing in a publicly traded company like Nike or Tesla or Amazon, then that company has earnings reports, profit and loss statements, balance sheets. That company has financial data that provides some type of anchor for what its value should be with a cryptocurrency. Because that currency is not an income producing assets. It's not a company that tries to make profits or a piece of real estate that earns an income stream, an apartment building, or a commercial office space that earns an income stream, for example. It doesn't produce any value. Its value is purely a collective agreement among those who hold it.

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Delyanne Barros

To be clear, that is true of all money, including the dollar. But the dollar has been around for quite a while.

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Paula Pant

And because of that, and because of the fact that it is so new, that collective agreement among those who hold it is just all over the map. And that's basically a way that our culture is having a conversation with itself right now. Cryptocurrency is so new that we don't have a track record. You know, Bitcoin was started in 2009, blockchain itself, the underlying technology was created in 1991. So all of this is very, very new. We've got tons and tons of data around how the value of stocks correlates with gold or with oil or wheat or various other commodities, or with real estate or with bonds. And we know how to cross compare those asset classes. And so if there's weakness in. Some asset class, then investors will move to a different asset class because they know how to spread their risk. Cryptocurrency is so new that no one knows what type of correlation there will be between various cryptocurrencies and the stock market, or the commodities market, or the bond market or the real estate market. And so because we don't know what these correlations are, investors don't know when to flock in and out of cryptocurrencies based on how these other asset classes are moving. And that's very much what we're trying to figure out. And we're doing so through the practice of massive volatility.

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Delyanne Barros

I want to pause here and talk a bit more about price fluctuation. I think it's important to understand how extreme the swings in crypto can be and how arbitrary. So I took to Twitter and asked you all to share what your experience with crypto has been like. Trish Petak responded.

00:13:15

Trish Petak

I'm 37 years old and I reside in Salina, Kansas.

00:13:19

Delyanne Barros

Trish is a business and accounting professor and a year and a half ago she and her husband John had a wild ride investing in Dogecoin.

00:13:28

Trish Petak

I believe my husband saw it on Twitter. Everybody was talking about it and the price per coin was less than a penny. And so we wanted to invest at a very kind of an extremely low price. So we invested \$1,000. We were able to buy 100,000 coins.

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Delyanne Barros

By everybody, She also means Elon Musk. Elon became a really vocal supporter of Dogecoin in 2021. He tweet about it, people would buy in and the price of doge would climb. \$1,000 is a lot of money to most people, but it wasn't that much to Trish and her husband. They pretty much figured, What the hell, let's try this out.

00:14:12

Trish Petak

I remember one morning my husband, he woke me up and was like, Hey, check this out. It had doubled. So it was our original \$1,000 investment was over 2000. And that was really cool. At that point when you know that your money has been doubled, it's like, Why don't we put 10,000? Why don't we put 20,000? And you know what ifs, you've got all these hypotheticals. But it was just it was kind of cool to see that growth almost overnight, essentially.

00:14:36

Delyanne Barros

That was in March of 2021, and the price of doge kept going up. One day in April, they went out to run errands in a five minute drive between stores. Trish says their Doge holdings earned thousands of dollars.

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Trish Petak

We were checking our phones constantly because at one point we had \$20,000 and then the next day is 25 and then it just keeps going up. It was so surreal. Honestly.

00:15:01

Delyanne Barros

Trish compared it to finding piles of cash around your house. Since January, the price of a dogecoin had increased literally 12,000% by May. She says their thousand dollar investment was worth 70,000. They thought about selling, but they also wanted to see if it would go any higher.

00:15:21

Trish Petak

The first time I noticed to sell was the minute Elon Musk appeared on Saturday Night Live.

00:15:27

SNL Skit

What is Dogecoin? Well, it actually started as a joke based on an Internet meme, but now it's taken off in a very real way by. Okay. For instance, this is a dollar, right? It's real? sorta. Yeah. So what is dogecoin? I keep telling you it's a cryptocurrency. You can trade for conventional money. Oh, so it's a hustle? Yeah. It's a hustle.

00:15:56

Trish Petak

You know, Elon, he went on in here, maybe poked a little bit of fun dogecoin in the investors. Right after that, the price per coin started tanking.

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Delyanne Barros

The people who had bought Dogecoin just a few days earlier were suddenly very in the red. Trish and her husband had a lost as much because they bought so early. But the price of doge was falling fast.

00:16:19

Trish Petak

We're still profitable at the time, but it's still dropping every day. I mean, we were losing \$1,000, 1500 dollars in profit every day. So it's like, do we sell? Do we hold? When's it going to stop bleeding? When is it going to stop dropping?

00:16:33

Delyanne Barros

So they finally decided to sell. They were still up more than \$40,000. But as the price continued to drop, they bought back in again, buying \$30,000 more. Just like last time. They figured if you buy low, you can see big gains at this point. A year and a half later, Trish says that \$30,000 is now gone and they're in the -\$3,000, but they're holding firm and they think it will go up again.

00:17:01

Trish Petak

We are diamond hands. That means that we're going to hang on to it for a long time. Again, we still believe in Dogecoin. We still believe in cryptocurrency. This was always a long term investment for us. So we do not have any intentions of selling it when we break even or even once we generate a very small profit.

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Delyanne Barros

I want to emphasize this. They see their crypto, including doge, as a long term investment. Trish says she had no way of knowing that doge would go through this crazy roller coaster, but she's willing to ride out the highs and the lows. But there are a lot of people who are in the crypto game because of the big swings, like what happened with Dogecoin. Here's Paula again.

00:17:43

Paula Pant

A lot of the hype comes from people who they see the price volatility and regard it as a get rich quick scheme. And anytime that you have a whole bunch of people who see the opportunity to, quote unquote get rich quick, there is irrational exuberance that forms around it.

00:18:02

Delyanne Barros

I get the temptation who doesn't want to double their money in their sleep? But this type of expectation is more like gambling than investing.

00:18:12

Music

I'm a digital girl and know.

00:18:15

Delyanne Barros

We're going to take a quick break. When we come back, we'll talk about a more realistic way to think about crypto. And a confession from me.

00:18:26

Delyanne Barros

Welcome back. I have a confession to make. I own some crypto. It's just a small part of my portfolio, about 4 to 5%. But I've got approximately \$70,000 worth of Ethereum. I think of my crypto like an experiment. I don't trade it. I don't touch it. I really just let it sit there and see how it behaves. If it went to zero. It wouldn't derail my financial independence goals. I also like being able to show you guys how my crypto compares to my more traditional investments in the stock market. I call them my boomer investments because some people have called me a boomer for being more into index funds than crypto. But guess what? Those boomer investments have done way better for me since I started dabbling in crypto. I've made zero profit. There will be big swings where I'm up \$20,000, but then that money just disappears again a few weeks later. Paula owns crypto too.

00:19:26

Paula Pant

So I have Bitcoin, Ethereum, Cardano and Voyager Token.

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Delyanne Barros

To be very clear, this is not us recommending that you buy these cryptocurrencies. I know at this point you're probably thinking if there's so much skepticism here, why do we own it? We're going to get into it. Like Paula said, you shouldn't treat crypto like a get rich quick scheme, but that doesn't mean that crypto couldn't gain value over time. Take Bitcoin. Paula says that while there's still a lot of volatility impacting its value, there's also some basic supply and demand at play.

Paula Pant 00:20:04
Bitcoin was programmed in such a way that there's a limited supply of Bitcoin. There will only ever be 21 million Bitcoin.

Delyanne Barros 00:20:12
Right now there are 18.6 million Bitcoin in circulation, but more are being added into the ecosystem every day. Earlier we talked about how blockchain technology is secure thanks to decentralization. It works because people volunteer to be on the network so it can be spread across computers around the world. People compete with one another to create blocks of data to keep the system going.

Paula Pant 00:20:39
And because we've done the work of creating that block, we get rewarded in the form of payment. That payment comes in the form of Bitcoin. And right now that payment is standardized at 6.25 Bitcoin per block. So if you and I are competing for the right to do that work, essentially we're competing for a job. The payment for that job right now is 6.25 Bitcoin per block. Now, as we get closer and closer to reaching 21 million Bitcoin, which is the total number of Bitcoin that will ever be issued into the supply. As we get closer and closer to that number, the payment drops and every time the payment drops, it drops in half. This is known as a halving event. So the last time that that payment dropped, the payment used to be 12.5 Bitcoin per block and it dropped down to 6.25 Bitcoin per block. When that drop takes place, which is known as a halving event, what typically tends to happen is that the price of Bitcoin skyrockets. And the reason for that is because there's been a signal to the system that there are fewer Bitcoin being issued into existence. And when supply declines, assuming demand either stays the same or increases the value of Bitcoin rises. And historically what happens is that the value skyrockets and then plummets and then evens out to a new normal, and that new normal is higher than what it previously was.

Delyanne Barros 00:22:08
To be clear, this is not how regular currency operates. When the U.S. Treasury wants more money, it just prints more money. But this is baked into Bitcoin's programming. There is a halving approximately every four years. And historically we've been able to track the value of Bitcoin increasing because of these events. So the expectation here is to treat it like a long term investment and hopefully see it rise more slowly and with more stability over time.

Paula Pant 00:22:41
But outside of an event that literally happens once every four years in the case of Bitcoin, I think it's a mistake to try to chase crypto returns in the same way that I also believe it's a mistake to try to time the market. If you are interested in converting some of your money into this alternative form of currency, I think the justification for that is because you believe that digital currency is going to be more widely accepted as a method of payment. It's a way that people pay and get paid in the future. And so if you believe that that's the long term, the ten year trajectory of how our civilization is. Going to grow then? Sure. Get in early. Exchange some of your money and hold it because you want to pass these bitcoin down to your grandkids because you believe that in their generation, digital currencies will be very, very widely adopted.

Delyanne Barros 00:23:43
Oh, so you don't think that there's any value in owning it for ourselves in our generation?

Paula Pant 00:23:48
Well, I mean, sure there is. But like, if you're thinking in terms of ten years. Absolutely. You know, but but buy crypto, if you're thinking in decades, not if you're thinking in days.

Delyanne Barros 00:24:00
Would you recommend this to a new investor?

Paula Pant 00:24:03
Hmm. So, first of all, I would say that for the bulk of your portfolio and by bulk, I mean at least 90% of your portfolio. Keep that in mind and true. You know, in my opinion, broad market index funds, something like the S&P 500 index fund or the total stock market index fund. But then if you choose to, you can take a small portion of your portfolio, 10% or less, no more than what you're willing to lose. And that can be the portion of your portfolio that you spend on fund investments. And so if you want to invest in cryptocurrency with ten or fewer percent of your portfolio, I think that's within the realm of fine. So long as you never you never invest more than you're willing to lose, right? So long as your portfolio is healthy enough that it can take that.

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Delyanne Barros

What about all of the, for lack of a better word, scams around crypto? Right now I'm hearing about so many people who are yeah. Getting shafted by like different exchanges or getting their crypto stolen out of their wallets or having like what they call a rug pull. Right. So you think you're investing in a project that has legs and then all of a sudden it's gone? The creators took all of the money and ran.

00:25:21

Paula Pant

Yeah, it is definitely the Wild West out there when it comes to all of the scams that are in the crypto market. Cryptocurrency is unregulated and that has both benefits and drawbacks. And some of you know that the lack of regulation is the draw to cryptocurrency. Yeah, the fact that it isn't government backed, but that also means that you don't have the same protections that you have. If your money is in a bank where it's FDIC insured or if it's a brokerage account, it's SPIC insured. Right. Those types of insurances, those safeguards are not there.

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Delyanne Barros

This means that storing your crypto safely is pretty much up to you. We could do a whole podcast on crypto security. We're not going to cover that today. Just know for now that it's something you should be thinking about if you decide to dip your toe into the crypto waters and that it can get a bit complicated. Crypto is risky in a lot of ways. This is still a very new technology. It's very volatile and we don't know what the future will hold. But for some people, that undetermined future is the most intriguing part. I've heard people describe cryptocurrency as this revolutionary currency that's going to break power structures, that's going to give the everyday man and woman access to money like we've never had before. I've heard them say that it's going to close the wage gap and it's going to clear your skin and it's just going to solve all the world's problems. Right. How much truth is there to that?

00:26:53

Paula Pant

Well. What it will do is it will decrease the power that banks and other major financial institutions currently hold. Right now, a couple of things are happening. Number one, there are a whole bunch of people who are unbanked. If you're unbanked, if you don't have access to the banking system generally and and this is the case for many, many people, both in the United States and worldwide. You're frozen out of a system that those who are banked just take for granted. And cryptocurrency, generally, digital currencies can solve that problem because people who do not have access to a bank account, to a checking account, to an ATM, to all of the services that banks provide, could still get access to digital currency. And the analogy that I like to use is, you know, in many countries I'll use Nepal as an example since that's where I'm from. There were places that never got grid electricity because we didn't have the infrastructure for an electrical grid to be there. So there were many villages that jumped directly from having no electricity to solar panels. Right. And so we sort of skip that intermediary step of the electrical grid that we leapfrogged into the newest technology, which ironically was actually easier than this heavy infrastructure system that was the intermediary system, grid, electricity. And so the same type of thing could happen with cryptocurrency where. If you don't have access to a bank. Well, guess what? You don't need one. And when banking reaches the unbanked like that, a lot of possibilities open up.

00:28:36

Delyanne Barros

Some people compare the creation of crypto to the creation of the Internet. When it started out, it was hard to imagine all of the things the Internet would touch and how much would change our lives. You might not be able to buy a cup of coffee with crypto tomorrow and you shouldn't count on crypto to make you a millionaire overnight. Whether crypto will still exist in its current form is unknown, but I think the technology is probably here to stay. If you do decide this is for you and that's a big if, it's really important to do your research. There's a lot of hype and misinformation about crypto flying around on Reddit threads and in telegram chats. But we rounded up a few reliable resources where you can keep learning if you're looking for more of the basics. Princeton University has a free online course called Bitcoin and Cryptocurrency Technologies. If you want to take a look at crypto prices and how they've changed over time, check out the website coindesk. And of course, CNN business also covers crypto. You can go to CNN.com slash business for the latest crypto news. Next Monday, we're going to talk about how family trauma can lead to a difficult relationship with money and what you can do to overcome it.

00:29:58

Mars Neveda

It's something I've had to talk to my therapist about. How do I kind of unlearn. These things so that I get out of this survival. Mindset with my spending?

00:30:07

Delyanne Barros

Make sure to follow us so you don't miss it. And if you like what you heard, please recommend the podcast to your friends and family and then give us a rating and a review. It's really helpful, especially since we're just starting out. Diversifying is a production of CNN audio. Megan Marcus is our executive producer and Hayley Thomas is our senior producer. Our producers are Alex Stearn, Kinsey Clark and Madeleine Thompson. Our associate producer is Charis Satchell and our production assistant is Eden Getachew. Mixing and Sound Design by Francisco Monroy. Artwork Designed by Brett Ferdock. Original Music by Andrew Eappen. Our technical director is Dan Dzula. Rafenna Ahmad leads our audience strategy. With support from Chip Grabow. Steve KhieI. Anissa Gray. Abby Fentress Swanson. Tameeka Ballance-Kolasny. Ashley Lusk. Lindsey Abrams. Lisa Namerow and Courtney Coupe. I'm Delyanne Barros. Thanks for listening.