coinbits

Unveiling the mystery of money

Why bitcoin and crypto are not the same

How to get started with bitcoin

How a bitcoin-based world could look

Bitcoin Foundations

Your day-one guide

Editor's Letter

What exactly is bitcoin? Here's an attempt at a brief answer: It is a revolutionary invention of peer-to-peer digital money that does not require any a central authority. It uses a software protocol that runs on a global scale, like the internet. All transactions are recorded on a public ledger maintained by thousands of computers (nodes) worldwide. It allows people anywhere in the world to exchange value instantly and securely, at any time.

That explanation only begins to describe the rich world of bitcoin. My own bitcoin journey was made possible through exceptional educational resources and the generous guidance of friends who had already navigated the learning process. By publishing research papers like this one, we at Coinbits hope to pay this forward and expand the thriving bitcoin community. Our goal is to do our small part to help the entire planet to benefit from sound digital money.

This introductory guide is designed for anyone interested in bitcoin, whether you're a beginner, a seasoned investor, or simply curious. It's intended to be a single starting point for understanding bitcoin's origins, its unique properties, how it is different from "crypto," and how it will transform the global financial landscape.

We invite you to discover bitcoin's potential to not only reshape our understanding of money but also to unlock new possibilities for human progress and innovation. If you like what you read, we'd be honored if you would visit coinbits.app and join us on this exciting journey into the future of money.

Dave Birnbaum, Director of Product
May 2023

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Evolution of Money

To appreciate the significance of bitcoin, we need a basic understanding of the history of money and its evolution over time. As we examine various monetary systems from the past, and why they gained adoption but ultimately failed, we can grasp how bitcoin fits within this story.

Barter (9000 BC)

Barter is said to be humanity's first attempt at exchanging value. Although there is no archeological evidence that people ever used barter as a widespread system of trade, it is not hard to imagine that prehistoric people traded goods directly, such as mammoth skins for fruit. The reason this would happen is that one person might have more of one type of good than is desired, but less of another. The person with too much fruit to eat before it rots would, of course, benefit from trading the excess with another person who has some desirable good, like mammoth skins.

This system relies on a **coincidence of wants**. In order to trade, each party must want what the other has. This is relatively rare. When you buy groceries, how likely would it be for *all* the people who produce those various goods to be willing to trade them for something *you* have in excess? Eventually, people started using commodities as a medium of exchange.

Weights and Measures (2000 BC)

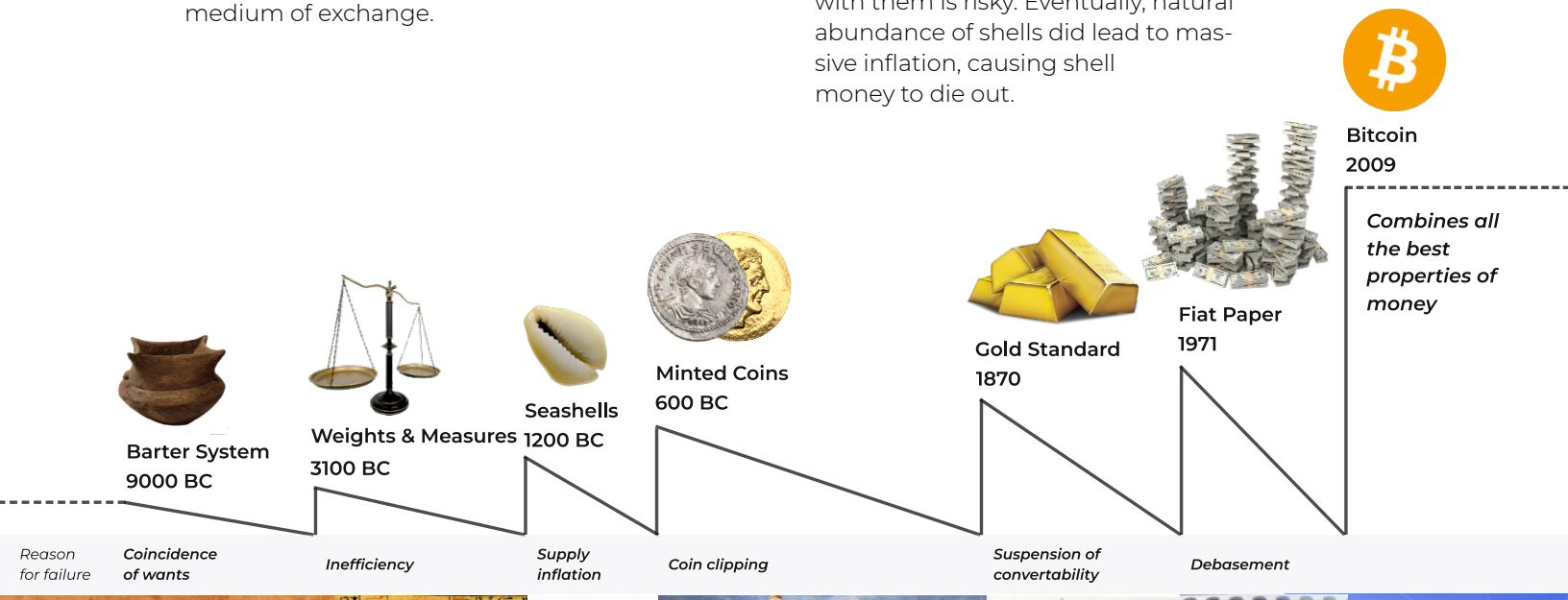
Some cultures used common goods to exchange value. In Egypt, trading centers had equipment for weighing and measuring grain. Grain has several desirable monetary properties: It is divisible into small amounts, and relatively fungible. It also has a utility value – participants in this economy could choose to trade their grain for other goods, or consume it directly.

However, this system had drawbacks. Grain is voluminous, heavy, and hard to transport. It can also be ruined by pests or moisture.

Seashells (1200 BC)

For a time, seashells were used as currency in West Africa. Shells had no direct usefulness, like grain, but instead only *symbolized* value. The specific type of shell in common use was highly portable and relatively durable. Shells in circulation were similar in appearance and size.

Although these shells were somewhat scarce in the communities that used them for money, their supply was unpredictable. This could lead to loss of value, that is, inflation. After all, if a stockpile of shells that took years of labor to accumulate could be debased by the discovery of a natural trove of shells, storing value with them is risky. Eventually, natural abundance of shells did lead to massive inflation, causing shell money to die out.



Minted Coins (600 BC)

Some ancient civilizations such as the Romans minted gold and silver coins. This was a key step forward in money technology. Rare metals were understood to maintain value over time, but it was hard to verify authenticity and hard to measure exact amounts. Minted coins introduced standard denominations, and, being stamped with artwork and text, were relatively difficult to counterfeit.

However, once these coins became highly recognizable and trusted across a large empire, government leaders were inevitably tempted to leverage this trust to issue coins with less rare metal, thereby increasing the money supply and enriching themselves. This practice, knows as "coin clipping," grew more widespread as the Roman culture declined into decadence and debt. By the end of the empire, Roman coinage was minted from cheap, abundant metal with the same trusted markings as before.

Gold Standard (1870)

A Gold Standard is a system in which all economic activity is based upon the value of gold. In the late 19th and early 20th centuries, a global Gold Standard took hold. Because gold is difficult to transport, gold vaults and banks would hold the gold in vaults, and issue paper notes that represented claims on it. Anyone holding this paper could convert their paper into gold by visiting the issuing party, and many did. Most, however, simply traded the paper. That people were willing to use gold certificates in place of gold speaks to a high level of trust in the banking system.

This period is remembered for dramatic technological and civilizational progress. As such, a gold-based system of trade is generally viewed favorably, even today, as demonstrated by the phrase "gold standard," which has come to mean "absolute best example."

Fiat Standard (1971)

The intense political violence in the early 20th century coincided with a deviation from the Gold Standard by world powers, whose leaders had figured out that the issuance of unbacked paper notes (called **fiat**) could allow central governments to access the wealth of their *entire populations* by printing money and diluting existing currency holders, without the need for explicit taxation. This shows once again that, once trust is built, it becomes tempting for temporary power holders to leverage that trust to preserve and enhance their own stature and wealth.

In the ensuing decades, the relationship of government-created currencies to gold was in flux. The overall trend was for gold to accumulate in the United States, and for the U.S. government to make it harder and harder to redeem dollars for gold. Finally, in 1971, the dollar was permanently unmoored from gold.

Since that time, the world economy has operated on a foundation of debt in the form of U.S. Treasuries. This system of fiat money has proven very useful in building fast digital payment networks and centralizing control of the economy. At the same time, however, it has resulted in a dramatic loss of purchasing power of dollars and a constant "business cycle" of booms and busts. Many believe that the decline of Western values and human rights are partially or wholly resultant from the abandonment of sound money in favor of consumption and debt.

Monetary Properties

Money is a tool for getting a job done. As a technology, it can be viewed as a simple machine, like the wheel, pulley, or lever. When you understand money as a tool, it becomes clear why gold makes better money than bananas. For the job that money has to do, there are certain qualities that make some objects better suited to the task than others.

The most important properties money are that it be **durable**, **portable**, **fungible**, **verifiable**, **divisible**, **scarce**, **censorship resistant**, and have an **established history**.

Bitcoin is not a perfect form of money. However, when it is compared to others, it is clearly the most advanced money technology ever invented, because it was designed to maximize the properties of money. And, being digital, it is especially suited to an age of global internet commerce.

	Bitcoin	Crypto	Fiat	Gold
Durable Can be used repeatedly	A	A	B	A+
Portable Can be carried easily	A+	A+	B	D
Fungible Units are interchangeable	B	B	B	A
Verifiable Anyone can tell it's not fake	A+	A+	C	B
Divisible Can be split into small pieces	A+	A+	B	C
Scarce Not naturally abundant	A+	F	F	A
Censorship Resistant Can't be restricted	A	C	D	C
Established History Has proven itself as money	C	F	C	A+

Adapted from *The Bullish Case for Bitcoin* by Vijay Boyapati and other sources.

Bitcoin's Path to Becoming Money

Bitcoin is currently "monetizing," meaning that it is widely used and recognized as money by more people every day. All forms of money were once not money, and they must have gone through a process of monetization.

The journey to becoming money involves three stages called **Store of Value**, **Medium of Exchange**, and **Unit of Account**. In this section we'll review how bitcoin relates to these stages and what to expect next.

Store of Value

In past years, bitcoin has primarily been utilized as a Store of Value. This means it maintains value over time, allowing users to preserve their wealth. This may seem unintuitive, because bitcoin's exchange rate with U.S. dollars is volatile. However, bitcoin's price floor over a 5 year period has steadily risen.

Because supply is fixed, its scarcity is absolute. There can never be more than 21 million bitcoins in circulation, regardless of politics or policy. Millions of people live in places where the purchasing power of their government-issued fiat can be destroyed at any time through incompetence or corruption. For them, bitcoin's volatility is an acceptable alternative to confiscation of their savings or debasement of their currency.

A common fallacy is that something must be a Medium of Exchange to truly be considered money. However, people use many assets to store value, such as gold and real estate. As a robust Store of Value, bitcoin offers significant benefits.

Medium of Exchange

That said, bitcoin's is currently in the early stages of becoming a Medium of Exchange. Although it is not widely used for this purpose, some merchants already accept bitcoin as payment. One reason adoption has been slow is that transaction fees are still high compared to fiat payments. Another is that tax implications can be onerous or unclear.

However, technologies like the Lightning Network are being developed to enable faster, cheaper transactions. As Lightning gains momentum, bitcoin's use as a Medium of Exchange will grow rapidly.

Unit of Account

The final stage of monetization is becoming a Unit of Account, which means that goods and services are priced in terms of bitcoin. For this to happen, its purchasing power must stabilize.

Transitioning to this stage requires a combination of improved infrastructure and increased adoption. As more people use bitcoin for daily transactions, and businesses incorporate it into their operations, it will naturally become a Unit of Account. This will mark the culmination of bitcoin's journey to becoming money.

Exchange Rate Volatility

Volatility in the exchange rate between new and existing forms of money is a natural part of the monetization process, as the new money undergoes price discovery and adoption. Because of

this, bitcoin's price fluctuations indicate that it is monetizing, not that it is a speculative bubble.

Monetization tends to entail volatility because, as a new monetary asset gains acceptance, demand increases rapidly as low-information investors to enter the market. Because they do not understand that they are witnessing a new form of money come into being, they sell it and take profit when the price reaches new highs, believing it to be a bubble in danger of popping. This happened when bitcoin reached $1, and $10, and $1000, and $10,000, and it will continue happening, until finally, the fundamentals of bitcoin are widely understood to be preferable to other forms of money that one could trade for it.

This phenomenon is not unique to bitcoin. However, in the case of bitcoin, exchange rate volatility can be attributed to two primary factors.

First, bitcoin's supply limit is fixed. This is unlike any other commodity, digital or otherwise. With other commodities, when demand increases, supply increases to meet it. Even the supply of scarce assets like gold can respond to demand; if the price goes high enough, more capital is allocated to gold mining and refining. Bitcoin miners cannot do this because of how bitcoin works. Since bitcoin's supply cannot respond to demand, the price is not "smoothed out." Any change to demand is instantly reflected in the exchange rate.

The second point is related to the first. Because bitcoin is a Store of Value, when more fiat units (dollars) flood the economy, demand for bitcoin tends to increase. In this sense, bitcoin itself is not volatile; rather, its exchange rate reflects the unpredictability of the fiat money supply. When monetary policy is tight, fewer dollars are invested into bitcoin, so demand declines. When policy is loosened and money becomes cheap, more dollars begin to chase a fixed amount of bitcoin.

As adoption increases, bitcoin's volatility will calm, its purchasing power will stabilize, and people will become confident in its viability as a Medium of Exchange and Unit of Account.

Monetization is a Process

The path to full adoption of bitcoin is a gradual process. As with any new technology, it takes time for society to adapt and integrate it into existing systems.

Bitcoin is well on its way to becoming money, with each stage of its development bringing it closer to this goal. The ongoing process of monetization and price discovery, along with advances in technology and infrastructure, will likely lead to decreased price volatility and increased confidence in bitcoin as a Store of Value, Medium of Exchange, and Unit of Account.

Key Takeaways

- **Bitcoin was designed by people trying to maximize its viability as money by giving it strong monetary properties.**
- **Today, bitcoin is used primarily as a Store of Value and, in some cases, a Medium of Exchange.**
- **Bitcoin's exchange rate is volatile because it is monetizing (becoming money).**

Bitcoin, Not Crypto

Bitcoin vs. Crypto

How Bitcoin Transactions Work

Digital scarcity

Dispelling Myths

Bitcoin vs. Crypto

Bitcoin is wholly different from other cryptocurrencies due to its decentralization, fixed supply, absence of counterparty risk, and regulatory status. While many people lump bitcoin together with "crypto", it's crucial to recognize the significant differences that set bitcoin apart.

Decentralization

Unlike other cryptocurrencies that are often managed by CEOs or foundations, bitcoin boasts genuine decentralization. This means that no single entity can alter the protocol. This prevents changes such as inflating the maximum supply of bitcoins, or misappropriating investors' money – an unfortunate occurrence that has happened often with other cryptocurrencies.

Fixed Supply

One of the key features that differentiates bitcoin from other cryptocurrencies is its fixed supply. There will only ever be 21 million bitcoins, which ensures that it remains a scarce and valuable asset. This scarcity is in stark contrast to many other cryptocurrencies, which may have flexible or uncapped supplies, leading to potential inflation and reduced value over time.

No Counterparty Risk

Bitcoin transactions may occur directly between peers, without intermediaries such as banks or financial institutions. This eliminates **counterparty risk**, ensuring that assets are not subject to the potential failures or mismanagement of third parties. In contrast, other cryptocurrencies, like Ethereum, may require users to trust centralized entities, which represents no improvement whatsoever over a fiat-based system.

Regulatory Clarity

The U.S. Securities and Exchange Commission (SEC) has indicated that bitcoin is a commodity. This sets it apart from other cryptocurrencies, which are increasingly likely to be regulated as securities. This is significant because it is an acknowledgment that bitcoin is a neutral "digital good" rather than being equivalent to a share in a company.

	Bitcoin	Crypto
Decentralized	✅	❌
Fixed supply	✅	❌
No counterparty risk	✅	❌
Regulatory clarity	✅	❌

How Bitcoin Transactions Work

A common question newcomers have is, how do bitcoin transactions actually work? Here's a breakdown of the steps, with details skipped in order to keep the explanation easy to understand.

1. A user can create a transaction and sign it using an uncrackable digital signature.

2. The user's computer broadcasts the transaction on the internet, where it is seen and propagated by bitcoin nodes run by anyone on the network.

3. Mining computers see this and many other transactions. About every 10 minutes, one of the miners successfully orders a set of transactions and adds them to the immutable, universal bitcoin ledger.

4. The miner then broadcasts the valid "block" to all network participants, who update their local copies of the ledger.

Note that no banks, governments, credit card companies, or third parties of any kind are present in this this process.

Achieving Consensus: Proof of Work vs. Proof of Stake

If everyone can make changes to their own copy of the bitcoin ledger, how do we know which one is

Steps of a bitcoin transaction

1. Anyone can create a transaction and sign it using an uncrackable digital signature.

2. Their computer broadcasts the transaction on the internet where it is seen and propagated by bitcoin nodes run by anyone on the network.

3. Mining computers watch for transactions, and about every 10 minutes, one of them successfully orders a set of transactions and adds them to the immutable, universal bitcoin ledger.

4. The miner then broadcasts this valid block to all network participants, who update their local copies of the ledger.

Notably absent: Governments, banks, financial companies.

right? This called "consensus," and it is a key engineering problem that bitcoin solved.

The two main consensus mechanisms are **Proof of Work** (or "PoW"), which bitcoin uses, and **Proof of Stake** (or "PoS"), used by Ethereum.

PoW is a better solution than PoS. It achieves consensus by requiring participants to spend computational power to add new blocks to the blockchain. PoW ties bitcoin to the physical world, because it imposes an opportunity cost on miners. They must choose to mine bitcoin instead of using that energy for some other economic activity.

PoS achieves consensus by allowing token owners to "stake" their tokens to vote for new blocks. Although it is energy efficient, PoS is just a fancy way of recreating the fiat system, where people who have more capital have more leverage and can control the rules of the system.

Digital scarcity

At the heart of bitcoin lies **digital scarcity** – an invention that is so revolutionary, it can be challenging to understand.

Anyone familiar with computers knows that a digital file can be copied exactly, ad infinitum. In fact, this aspect of digital technology has so disrupted the distribution of intellectual property that venerable industries such as music, film, publishing, and media have been upended by it.

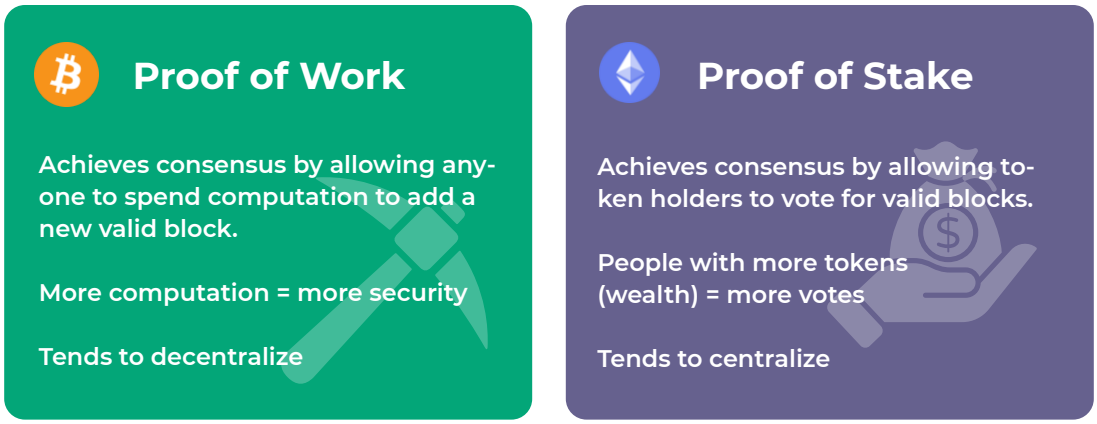
This has been going on for decades, and at this point, we all know and accept that digital files can be copied and distributed easily. That's part of why bitcoin can be hard to understand for newcomers. Nonetheless, it is actually possible: Using the bitcoin protocol, you can *make something digital that can't be copied or erased.*

Part of what makes this possible is the shared ledger that bitcoin uses to specify who has which coins. Every transaction is recorded on this ledger, and the ledger is copied exactly to millions of computers around the world. Because it is impossible to corrupt the history of the ledger unless you had more computing power than is practical for anyone to possess, you can be confident that the bitcoin you have cannot be taken or erased.

Conversely, nobody can counterfeit bitcoin because, in order to make new bitcoins, a mathematical protocol must be followed, and following that protocol is identical to mining. In other words, bitcoin is designed so that it is more financially advantageous to participate in the network than to attempt to undermine it.

As a user of bitcoin, you don't need to dive deep into the engineering of how it works. But to understand just how scarce bitcoin is, consider that only 21 million bitcoins will ever be created, with 19.2 million already in circulation, and less than 2 million left to be mined.

To put it into perspective, if you divide 21 million by the global population of 8 billion, you get 0.002 bitcoin per person. When you divide the 21 million bitcoins by 56 million, which is the number of mil-



lionaires in the world, you see that there are only 0.375 bitcoin per millionaire. Because bitcoin can be divided into tiny amounts, it will never "run out." All 8 billion people can use the 21 million bitcoin to establish a global system of commerce and trade. However, as more people use bitcoin, smaller and smaller amounts will have more and more purchasing power.

Dispelling Myths

Let's briefly address some of the most common misconceptions about bitcoin.

Bitcoin is a Ponzi scheme: False

A Ponzi scheme is a fraudulent investment scam in which returns are paid to existing investors from the funds contributed by new investors, rather than from profit earned. Ponzi schemes are often reliant on secrecy. They guarantee returns. And they're pushed by high-pressure, frenzied sales and marketing tactics. Many cryptocurrencies and crypto exchanges have indeed been structured like Ponzi schemes, but not bitcoin, which is open source, has no sales or marketing team, and promises nothing more than "getting rich slowly."

Bitcoin is not backed by anything: False

While it is true that bitcoin is not backed by a physical commodity like gold, it is backed by mathematics and cryptographic code, which provide verifiable scarcity and the ability to audit its supply with precision. Fiat money, on the other hand, is not backed by anything other than the government's promise to maintain its value, a promise that has, historically, eventually been broken every time it has been made.

Bitcoin is bad for the environment: False

Bitcoin mining becomes more efficient and environmentally friendly each year because miners are motivated by profit seeking to discover and develop cheaper, cleaner energy sources. In contrast, the fiat money system has significant environmental impacts, including physical money production, physical banking infrastructure, and human capital to maintain the enormous bureaucracy required to keep fiat working.

Additionally, inflationary fiat currencies encourage short-term thinking, overconsumption, and environmental exploitation, as individuals and businesses prioritize immediate gains over long-term sustainability.

Bitcoin can be copied: False

Since bitcoin's launch in 2009, thousands of cryptocurrencies have been created, but none have succeeded in replacing bitcoin. Its decentralization cannot be replicated, and its network effects make it impossible for anyone else to catch up. Many years ago, it might have been possible for

one of them to overtake bitcoin, but now that tens of millions of people use it, bitcoin is here to stay, just like the protocols that underlie the internet.

Bitcoin will be banned: False

Although some governments, like that of China and India, have tried to ban bitcoin, they have not been successful. In practical terms, no one can permanently prevent the use of a software protocol.

Instead of banning it, some countries have designated bitcoin as legal tender. In the U.S., regulators have indicated that bitcoin is a commodity, making it unlikely that regulators would attack it directly. Some other cryptocurrencies, however, may face regulatory challenges or outright bans due to their centralized nature or lack of compliance with financial regulations.

Bitcoin is mostly used by criminals: False

The vast majority of criminal activity occurs using fiat money. Those who propose that bitcoin should be banned because a small minority of transactions are associated with criminality must explain why fiat should not also be banned, given its widespread use in every crime imaginable, from extortion, to money laundering, to terrorism.

Bitcoin is too volatile: False

New assets are typically volatile during their price discovery phase. However, history shows that bitcoin recovers after crashes. As adoption increases, its price volatility will decrease. Some other cryptocurrencies may experience higher volatility due to their smaller market capitalization or lower levels of liquidity. Fiat is itself susceptible to loss of purchasing power due to inflation and poor policy, with the dollar having lost 90% of its purchasing power over the past century.

CBDCs will win: False

CBDCs, or Central Bank Digital Currencies, are cryptocurrencies that are issued by a central bank or government. They repurpose some of the innovations of bitcoin to enable granular, centralized control and surveillance of every unit of currency in the economy. This allows central governments to undermine liberty and control people's lives to an extraordinary degree.

CBDCs pose a real and present danger to natural rights, and they must be fought at every turn using the political process. However, even if the voting public does not desire CBDCs, the sad reality is that governments are not always held accountable for their actions, and a CBDC is likely to be instituted in the U.S. eventually.

If this does occur, it will accelerate the transition to bitcoin, as people will inevitably recognize it as a way of preserving self-sovereignty when the only alternative is tyranny fueled by total financial surveillance. This recently played out in Nigeria. The population rejected the government's CBDC, and many moved their savings into bitcoin as fast as they could.

Key Takeaways

- **Bitcoin is truly decentralized, unlike other cryptocurrencies.**
- **Runaway network effects make it impossible for any other cryptocurrency to catch up with bitcoin.**
- **Bitcoin's supply is limited and cannot be changed.**
- **In the near future, it will be difficult to accumulate even one whole bitcoin.**

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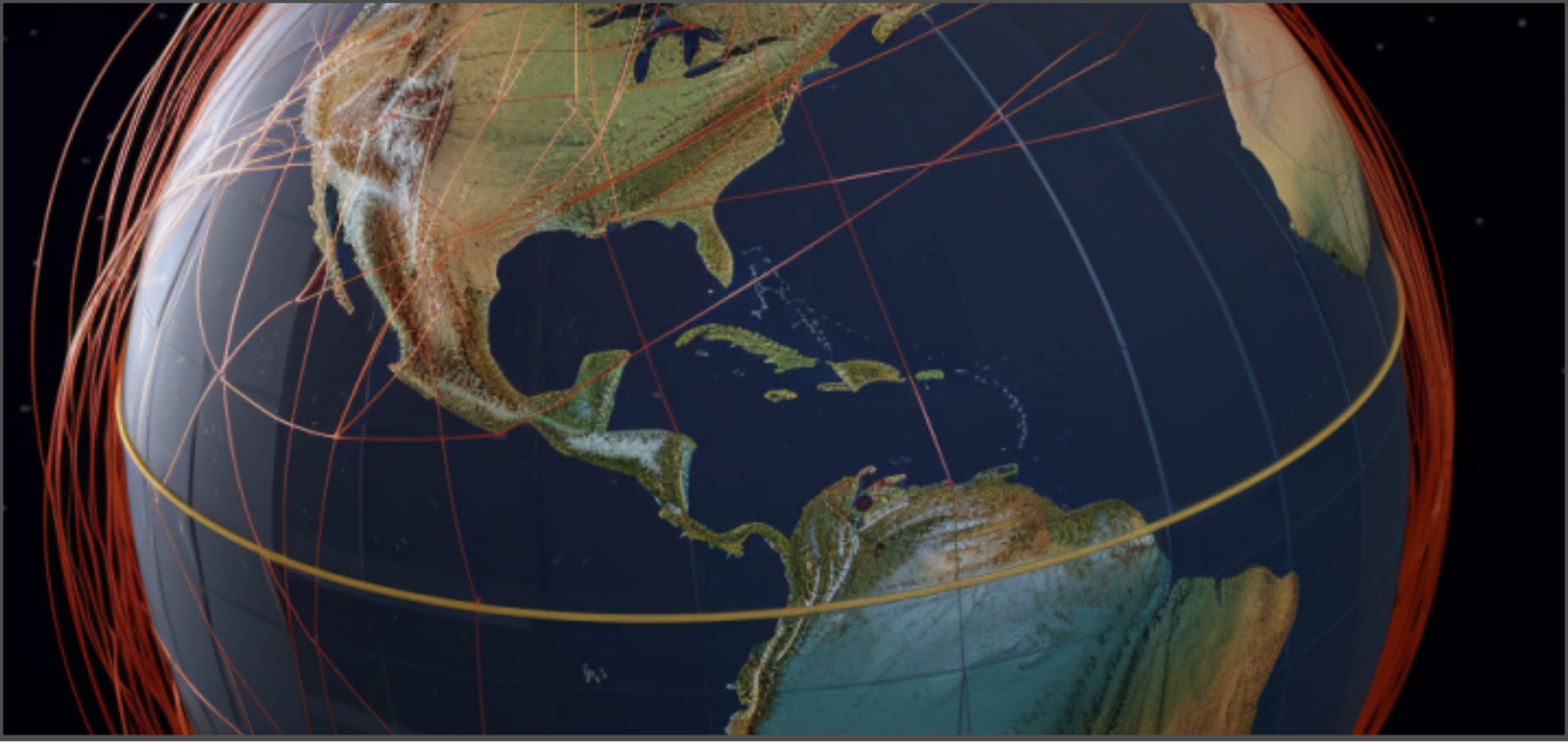


Adoption of Bitcoin

A Perfect Storm

Trends in Bitcoin Adoption

Bitcoin in Developing Nations

Comparing Other New Technologies

A Perfect Storm

An amazing and under-appreciated fact about bitcoin is that its adoption only moves one direction – up – regardless of its price in dollars. That means that every day, there are more owners and users of bitcoin than there were yesterday. Why?

Talk to financial experts, wealthy people, blue collar workers, or economists, and you will find a pervasive attitude that the world order is beset with deep, intractable problems that are cause for concern. Anxieties about money printing and debasement are seen as an essential part of the picture, and rightly so.

Since 2020, $3.8 trillion have flooded the economy. This is a truly astronomical, almost incomprehensible number. If you were to spend $4 million a day since the year 0 A.D., you would not have spent $3.8 trillion by today. The percent increase in the money supply since COVID is unknown, but estimates range anywhere from 25% to 80%.

How It Happened

A long series of events led to this moment, which we will only briefly touch upon here.

"Free banking", where local banks were free to issue their own depository notes, was ended in the late 19th century in favor of greater government oversight. At the time, this was a rational response to a long series of bank failures. Soon, however, the U.S. government established the Federal Reserve, which effectively became a central bank for the United States.

The U.S. subsequently defaulted on its debt several times. One such time was when Franklin Roosevelt confiscated gold, then promptly devalued the dollar by decree. Another default occurred in 1971 when President Nixon permanently changed the backing of the dollar from gold to debt.

Since then, the U.S. dollar has been unmoored to any hard or scarce asset, replaced by "full faith and credit" jargon that really just means "the power to print."

Thus, our experiment with debt-based fiat currency in the United States is only about 50 years old, and in that time, we have seen a hollowing out of our middle class, a dramatic increase in centralized power, massive growth of the bureaucracy and the military, and other drastic changes.

Debt That Can Never Be Repaid

Because the dollar has achieved global reserve currency status, the United States has enjoyed a privileged position in which it can export dollars in exchange for valuable goods. Because of this continually accruing advantage, the U.S. has enjoyed tremendous leverage in the world economy.

Even though dollars are not sound money, they are relatively scarce compared to the fiat currencies of other countries. And because dollars are

World reserve currency periods

Portugal 1450–1530	**80 years**
Spain 1530–1640	**110 years**
Netherlands 1640–1720	**80 years**
France 1720–1815	**95 years**
Great Britain 1815–1920	**105 years**
United States 1921–today	**102 years and counting**

Adapted from Forbes Magazine

universally recognized and easy to transmit through the international banking system, the decisions of the Federal Reserve directly impact the entire world. For better or for worse, the dollar is the only game in town.

However, global debt is close to $400 trillion, with U.S. debt exceeding $30 trillion and doubling in the last 10 years. Economic output, whether measured with GDP or another way, cannot keep up.

To carefully unwind this system in a methodical, safe way would be extraordinarily complex, and there is no group of influential people who are motivated to do so. On the other hand, in the words of economist Herbert Stein, “If something cannot go on forever, it will stop.”

A New Gold Standard Will Not Work

Think tanks, central banks, and politicians are waking up to this problem, and various solutions are being proposed. Some countries are establishing bilateral agreements to trade in a currency other than the dollar. There are many economists who believe we should use the political process to re-establish the Gold Standard.

It is our view that a new Gold Standard is not only impractical, but undesirable. First, gold is not a viable tool for value exchange among regular people because it is heavy, easily lost or stolen, and hard to divide into small units of value. To avoid these obvious problems, some Gold Standard supporters are calling for gold-backed government paper or cryptocurrencies.

The problem with this is that the issuer of the IOU will always be incentivized to create more units of the asset than ounces of gold backing them. The debasement may start as a “rational response” to a crisis, but will lead to the same result eventually.

Even if that were not the case, a gold-backed currency would mean that you would have to trust that same issuer that your IOU would be redeemed for gold if you asked for it. As we have seen all to often, that promise is worth as much as the piece of paper itself.

Finding a Fairer System

Bitcoin is viewed not only by those in rich countries, but also those in developing economies as an attractive alternative to gold and fiat.

Nearly 25% of the global population is unbanked. Even those who do have bank accounts in relatively developed nations routinely see their savings devastated by government policy, sometimes well-meaning, but often borne of corruption.

Bitcoin can provide secure and low-cost access to financial services to anyone on the planet, with no need to trust an issuing authority. This financial empowerment is improving the lives of millions of people by letting them access savings, investments, and business opportunities, fostering economic growth and development.

Generational Changes

Technology’s exponential acceleration will support the adoption of bitcoin. As inexpensive, satellite-based internet becomes widely available, alongside proliferation of smart devices and computers, the barriers to using bitcoin are getting lower every day.

A new generation of young people are uncomfortable with the byzantine and outdated financial system, but understand bitcoin intuitively. At the same time, a massive generational wealth transfer is underway, with estimates ranging from $30 trillion to $68 trillion being passed down from older generations to younger ones. This shift will fuel bitcoin adoption, as there will be more capital available to be exchanged for bitcoin by these digital natives.

A New Era of Global Trade

Bitcoin's borderless nature allows for frictionless global trade and commerce, letting businesses transact with one another seamlessly, regardless of geographical location. This is a strong tailwind for bitcoin in the global economy. Anyone who has experience with international business knows that the process of moving money across borders is fraught with uncertainty and delays. By eliminating the need for currency conversions, reducing transaction fees, and providing final settlement,

bitcoin can facilitate more efficient and cost-effective international trade, benefiting businesses and consumers alike.

Environmental Consciousness

As environmental concerns become increasingly prominent, bitcoin will be recognized as supporting a more sustainable financial system. While some environmentalists wrongly believe bitcoin is a detriment to the environment, the bitcoin mining industry is in fact a driver of development of clean energy resources, and uses more green energy sources than any other industry.

Although the environmental impact of bitcoin mining compares favorably to that of fiat, there is an even more compelling environmental argument in favor of bitcoin, and it has to do with consumer behavior. Fiat is detrimental to the environment in that it encourages behaviors and decisions that are impulsive, wasteful, and immediately gratifying, because fiat's transience undermines the age-old virtues of saving and thrift. On the other hand, bitcoin's deflationary nature encourages careful consumption.

Remote Work and Digital Nomads

Technology now enables many people whose work product is primarily digital to work from anywhere on the planet. However, challenges with getting paid for that work hinders this trend. Bitcoin, with its borderless and peer-to-peer nature, caters perfectly to this growing demographic of digital nomads, allowing them to offer services to others regardless of location, and receive compensation quickly and reliably. This increased freedom can lead to a more productive and flexible workforce, further fueling economic growth.

Resilience Against Economic Crises

A growing number of people of all levels of wealth perceive that bitcoin could serve as a safe haven during an economic collapse. Even those who are not convinced that bitcoin's success is inevitable often make the choice to hold some, because it is clearly *possible* that bitcoin will continue being adopted in the coming years and decades at the same rate that it has been so far.

Trends in Bitcoin Adoption

Bitcoin is gaining traction globally through individual ownership, institutional investment, and improving technology infrastructure.

The adoption story of bitcoin is impressive. After 14 years, there are estimated to be 100 to 200 million bitcoin holders, and one country (El Salvador) has declared it legal tender. Users of bitcoin are spread all over the planet and live in every jurisdiction, yet are connected by their ability to trade value directly with each other. With so many users distributed so widely, it is improbable in the extreme that bitcoin could disappear overnight, if ever.

Individual Ownership

Bitcoin adoption is accelerating, with experts estimating that 1 billion people will own it by 2025. The number of active bitcoin addresses has been steadily increasing. According to a 2021 survey by the Global Blockchain Business Council, approximately 46 million Americans, or 17% of the adult population, own bitcoin.

Institutional Investment

Major companies, such as MicroStrategy, Tesla, Block, and Paypal, are adding significant amounts of bitcoin to their balance sheets. In 2021, MicroStrategy, an enterprise software company, held over 100,000 bitcoins, while Tesla invested $1.5 billion in it. Additionally, financial institutions like Fidelity and Grayscale manage large-scale bitcoin funds.

Technology Infrastructure

Bitcoin's infrastructure is improving, making it more accessible and user-friendly. The Lightning Network, a second-layer network for fast and cheap bitcoin transactions, is helping drive its use as a Medium of Exchange.

The increasing number of bitcoin ATMs globally – over 31,000 as of September 2021 – is another way access to bitcoin is improving.

U.S.-based mining companies are world leaders in hash power, which is a measure of mining strength. The U.S. is home to some of the largest

bitcoin mining facilities, and holds over 37% of total global market share as of January 2022.

Bitcoin in Developing Nations

Entire nations are recognizing bitcoin as sound, stable money that can help address various economic challenges. Countries that have struggled with currency stability, corruption, and foreign influence are embracing bitcoin.

El Salvador

El Salvador made history in 2021 by becoming the first country to adopt bitcoin as legal tender. This groundbreaking move aimed to address several issues, including high remittance costs and limited access to banking services for a large portion of the population. Bitcoin's adoption in El Salvador has not only enabled its citizens to send and receive money more efficiently but has also attracted international attention and investment in the country's growing technology sector.

Nigeria

In Nigeria, corruption and high inflation have led many to turn to bitcoin as an alternative means to store and transfer value. The Nigerian government introduced a CBDC called the "e-Naira," but citizens have been wary of using it due to concerns about corruption and theft. As a result, bitcoin has enjoyed rapid adoption.

Brazil

Brazil is another country where bitcoin is growing rapidly, as citizens can now pay their taxes with it. The national currency is volatile, and hyperinflation remains a recent memory, having happened only a few decades prior.

Mexico

In Mexico, prominent personalities including Senator Indira Kempis and Mexico's third-richest man Ricardo Salinas Pliego have signaled support for bitcoin. Senator Kempis advocates recognizing bitcoin as legal tender in Mexico, and Salinas pub-

licly announced in June 2021 that his bank Banco Azteca is preparing to integrate it.

Former French Colonies

The CFA (Communauté Financière Africaine) Franc is a currency used in 14 countries in Western and Central Africa. These nations, once part of the French empire, continue to face economic challenges tied to the CFA Franc, as it is pegged to the euro and subject to the monetary policy of the European Central Bank. This arrangement allows European countries, especially France, to manipulate the balance of trade to its advantage. This is one of the key reasons the former French colonies have had such difficulty developing their economies.

Comparing Other New Technologies

Bitcoin's rate of adoption can be compared to that of other groundbreaking technologies such as the telephone, electric light, automobiles, credit cards, microwaves, mobile phones, the web, and many other examples.

The adoption curve for any new technology typically follows an S-shaped pattern, beginning with a slow initial uptake by a small group of early adopters, then gradually rising as the technology gains mainstream acceptance, and finally leveling off as it reaches saturation.

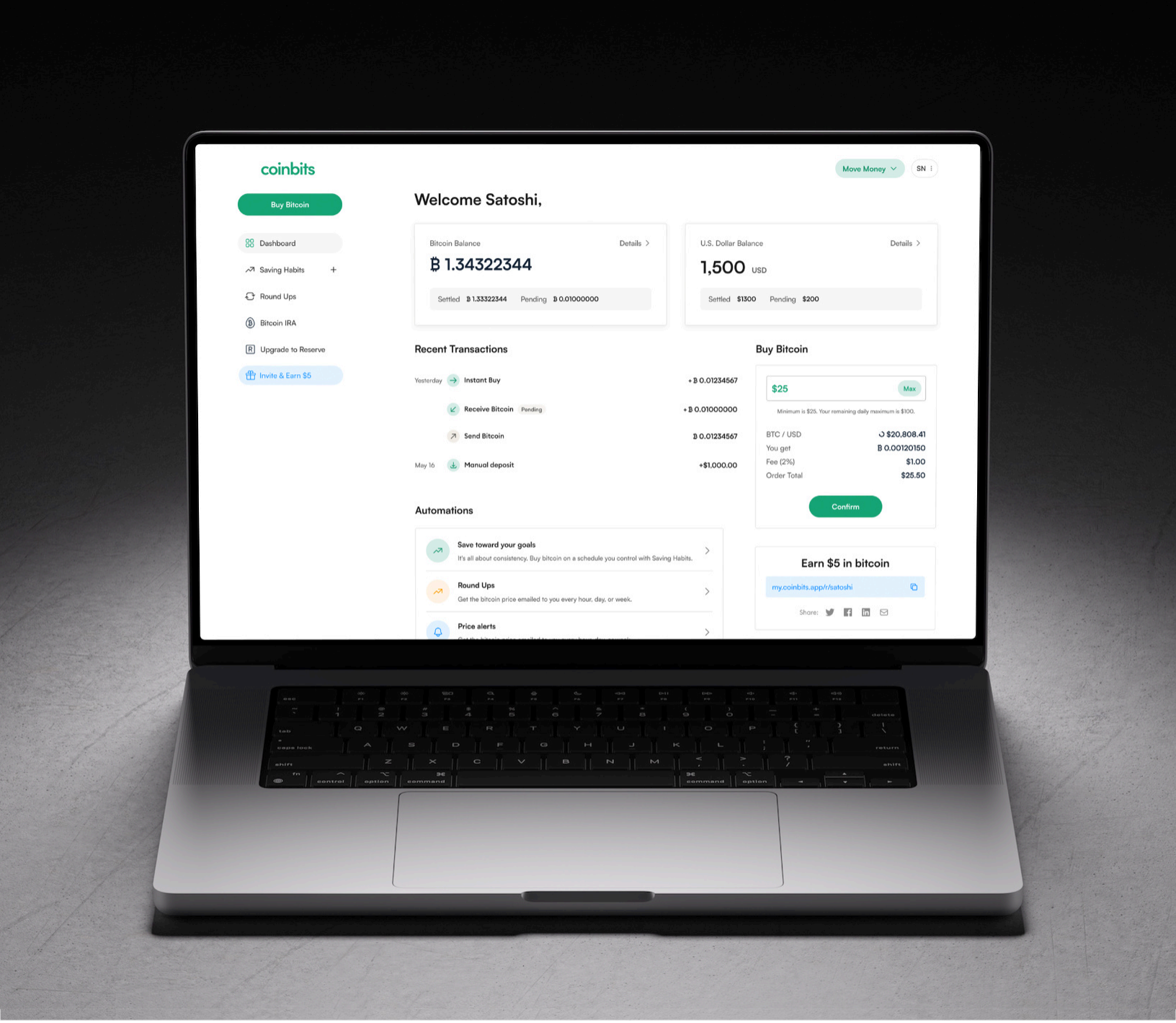
The duration of these adoption curves has been shortening. For instance, the telephone took several decades to become a household staple, while the rapid growth of the internet and mobile phones saw widespread adoption within just a few years. Adoption of generative AI (such as ChatGPT) set a new speed record, gaining over 100 million users in just a few months. This portends the possibility of a “hyperbitcoinization” event – a mass exit from fiat to bitcoin, triggered by a currency crisis or economic collapse.

Early Adopters vs. Mass Adopters

Early adopters are usually individuals who are eager to try out new technologies, often because they recognize the potential benefits and have a higher tolerance for risk. Mass adopters, on the other hand, are more likely to adopt a technology once it has proven its value and any initial issues or concerns have been addressed. The transition from early adopters to mass adopters is critical for any technology to achieve ubiquity. Bitcoin is still young, but its adoption curve is already showing signs of acceleration.

Key Takeaways

- **If history is any guide, the dollar is in terminal decline.**
- **Cultural and demographic tailwinds are accelerating adoption of bitcoin.**
- **Bitcoin use is already widespread, with ownership exceeding 1% of the world population.**



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Purchasing Power of Bitcoin

Why People Trade Fiat for Bitcoin

Bitcoin Compared to Other Stores of Value

1 Bitcoin = 1 Bitcoin

Why People Trade Fiat for Bitcoin

A common argument against bitcoin's long-term viability is that it doesn't have any "real value." This is reasonable when you consider that bitcoin is a technology that is so innovative, it feels unfamiliar to most people when they first encounter it. After all, it's nothing like fiat, which is issued by a central bank associated with a powerful government.

It is not like a stock, which gives the holder partial ownership of a company. It isn't like a bond, which provides the holder with a claim on an amount of debt that will be repaid when the bond matures.

It does not generate cash flows, like rent on real estate or interest on a loan. It is not a precious metal used in industry and jewelry, like gold.

And yet, a single bitcoin is traded for tens of thousands of dollars. People use it for buying, selling, and trading all over the planet. Why?

Intrinsic Value ❌

According to monetary theory, some forms of money have **intrinsic value**, meaning that they are useful for something besides transacting. For example, salt, which has been used as money in the past, has intrinsic value because it can be used to season food. Similarly, gold has intrinsic value because it is used in industry and jewelry.

Money that cannot be used for anything besides a Medium of Exchange or a Store of Value is deemed to have no intrinsic value. This means that fiat currencies, such as dollars, have no intrinsic value either, because they are useless for anything besides serving as money.

So, the U.S. dollar shows that money does not need to have intrinsic value in order to be trusted and widely used.

Fundamental Value ❌

Alternatively, there is a financial concept known as **fundamental value**. The fundamental value of an asset is the value of the future cash flows that the asset generates, discounted to the present.

Real estate has fundamental value because it generates returns. Gold does not generate future cash flows and therefore has no fundamental value.

From a monetary perspective, bitcoin has no intrinsic value, and from a finance perspective, it has no fundamental value. Bitcoin offers nothing besides utility as money. Warren Buffett attacked it for this reason, calling it "rat poison squared."

However, many of the smartest investors fail to grasp that bitcoin is extremely valuable as money *precisely* because it is so good at being money – and because that is its only job.

Subjective Value ✅

That begs the question: If bitcoin is just money, why would people demand it enough to drive its market capitalization into trillions of dollars? The answer is deceptively simple: Bitcoin has value *because people think it does*. This may sound unsatisfying, but it is in fact how money works.

Using anything as money is equivalent to placing a bet on its ability to be exchanged for valuable goods and services in the future. The meteoric rise of the price of one bitcoin, rocketing from $1 to tens of thousands of dollars in a decade and a half, demonstrates that people, in aggregate, share this view. Value is subjective, and the subjective belief that bitcoin is valuable is shared by millions. This belief is well founded, since bitcoin has very strong monetary properties, as discussed earlier.

The Dollar in Transition

The dollar's reserve currency status benefits holders of U.S. financial assets such as stocks, bonds, and real estate. This is because it allows the U.S. to import goods in exchange for dollars, of which the U.S. has an unlimited supply (because it creates them). Because U.S. capital markets are some of the most open in the world, overseas producers are likely to reinvest the dollars they earn from Americans back into American financial assets.

This system works to the extreme advantage of elite financial asset holders. However, it is detrimental to American labor and manufacturing, because the dollar's reserve status encourages U.S. companies to offshore their workforces.

This dynamic is responsible for the hollowing out of the middle class in the United States over the past half century. Simultaneously, dollarization has provided developing markets like Asia with a constant demand for their products, allowing their economies to grow rapidly.

Because the U.S. economy is now reliant on foreign entities investing their dollars in American assets, policy makers must put the interests of capital before labor, and tend to respond to financial crises with currency debasement when the alternative is credit contraction.

This system has functioned for decades, but in recent years, cracks have begun to show. Some countries are now trading outside the dollar system, and central banks are stockpiling gold. Many now wonder whether we are witnessing a de-dollarization of the world economy.

Some assume that, since China is challenging the U.S.-led world order, it would like its currency to replace the dollar. However, that would require opening China's capital markets, so that holders of yuan have a place to reinvest their money. This would provide global market participants with an opportunity to accrue power within China, which is not desired by China's leadership. Additionally, "yuanization" would depress China's labor market and middle class. None of this supports China's strategic interests.

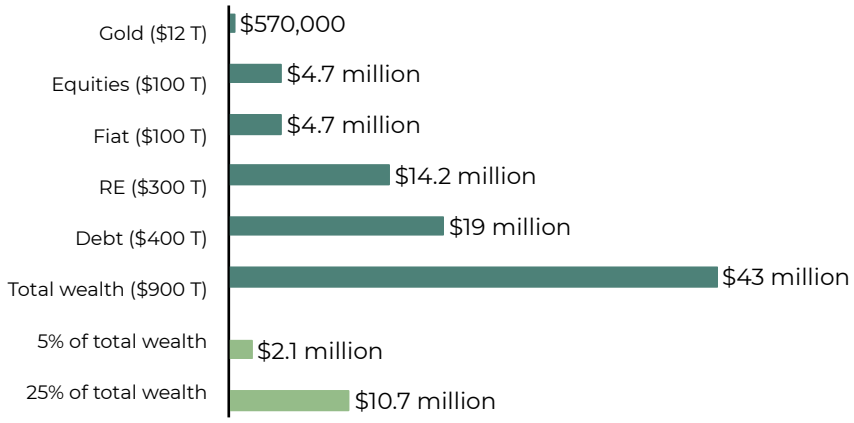
The more likely scenario is that multiple currencies will be used in trade. Global demand for U.S. financial assets like stocks, bonds, and real estate will decrease as investors prioritize neutral commodity money, including gold and bitcoin. Indeed, nation states began stockpiling gold in 2008, and, more recently, have added bitcoin to the mix.

As this plays out, bitcoin holders stand to benefit tremendously. As the current system fractures, bitcoin will play a significant role in the dollar's dethroning – generating unprecedented demand for an asset with a fixed supply.

Bitcoin Compared to Other Stores of Value

Since its inception, bitcoin has experienced tremendous growth in purchasing power. After only two years, in 2011, its value rose beyond $1. Since then, its all-time highest exchange rate was over $69,000.

If bitcoin's adoption continues to accelerate, its market capitalization will rival and eventually overtake other stores of value. Because bitcoin's supply is fixed, it is possible to calculate the future purchasing power of one bitcoin in terms of its exchange rate in today's dollars. The chart below shows how much one bitcoin would be worth in today's dollars if its market capitalization matched that of today's most marketed investment assets.

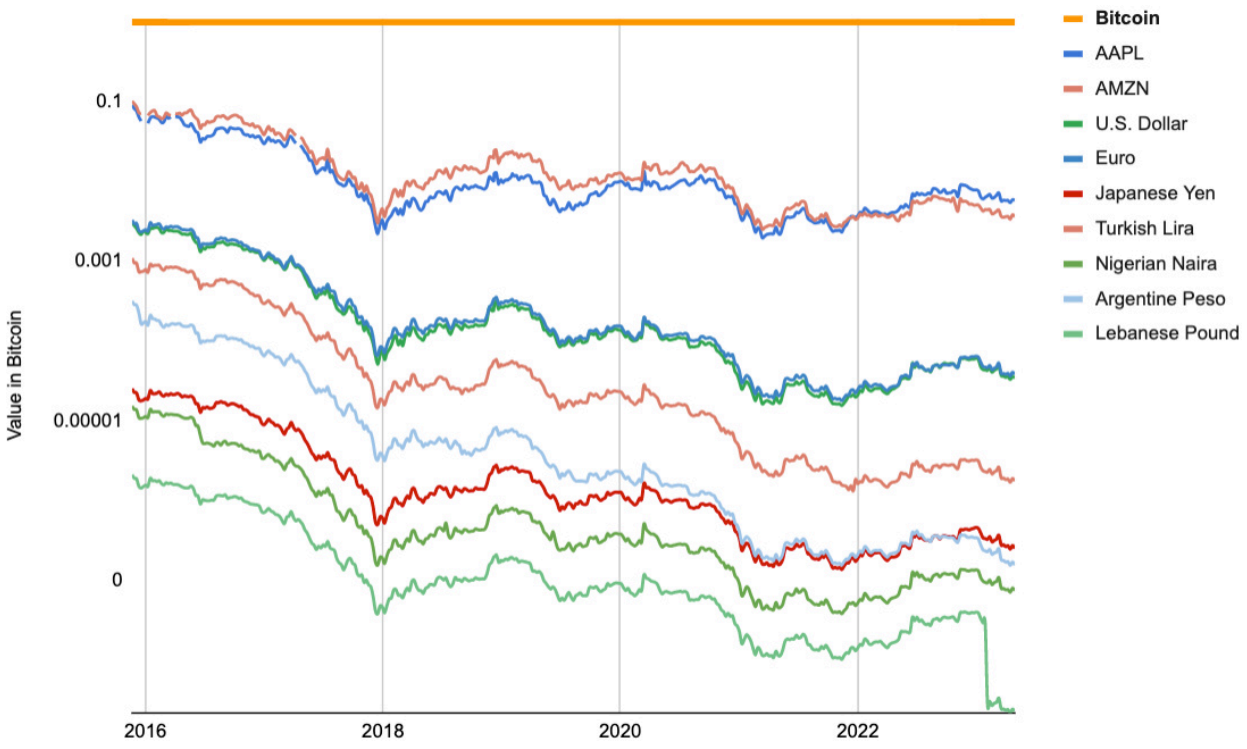


Price in USD of one bitcoin, in terms of market capitalization of other stores of value

1 Bitcoin = 1 Bitcoin

Traditional financial professionals and economists sometimes deride bitcoiners for using the phrase "1 bitcoin = 1 bitcoin." They might say, "of course, 1 bitcoin = 1 bitcoin, just as 1 dollar = 1 dollar."

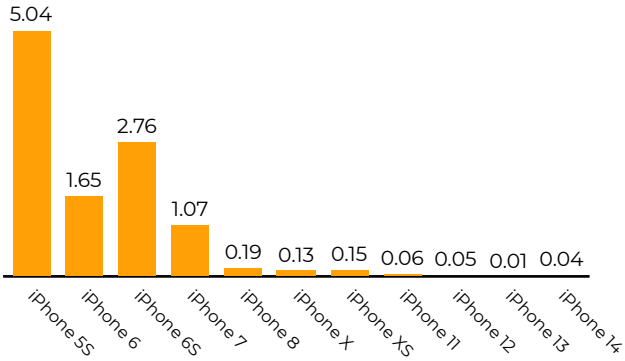
However, this misses the point. Unlike fiat currencies, bitcoin is a stable system with a perfectly auditable circulating supply. The supply of fiat currencies rises and falls through the actions of the political bodies that control them. Remarkably, there is nobody on earth who can make an accurate estimation of how many U.S. dollars exist in the world economy.



In contrast, geopolitics, policy, climate, and other externalities have zero effect on the bitcoin network as a whole. This allows us to trust bitcoin as a fixed unit. It the *only* viable solution for a stable, universal measurement of value.

Measuring the price of goods in bitcoin over time demonstrates that everything gets cheaper in bitcoin terms. As an example, the amount of bitcoin needed to purchase the latest version of an iPhone any given year trends down.

Price in bitcoin of iPhone models at time of release



People who understand bitcoin shift their perspective. Instead of thinking of bitcoin as having a price that rises, they think of other assets as depreciating compared to bitcoin. When you view asset valuations this way, you recognize that bitcoin's rapid appreciation is not a speculative bubble, but is instead a magnetic pull of capital away from weaker forms of money. Again, this is only possible with bitcoin, because it is the only globally-recognized asset with a perfectly predictable issuance schedule and auditable supply.

Key Takeaways

- As bitcoin's infrastructure improves, more people and institutions are able to access and adopt it.
- As bitcoin absorbs the monetary premiums of other assets, its purchasing power rises.
- Because bitcoin is a perfectly auditable and immutable system, it is possible to utilize it as a standard measurement for value.

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Becoming a Bitcoiner

The Five Steps

Mindful Measures

Hold Your Own Keys

The Five Steps

A Bitcoiner is more than just someone who owns bitcoin; it's someone who has adopted new way of thinking and acting. Here are five steps you can take toward becoming a Bitcoiner, starting today.

1. Get Off Zero

The first step to becoming a Bitcoiner is to **get off zero**, which means acquiring some amount of bitcoin, no matter how small. By owning even a fraction of a bitcoin, you gain firsthand experience with it. This helps you shift your perspective, and you begin to view the world through a new lens.

Getting your first small amount of bitcoin can be daunting, because there are so many services that claim to offer it. Some are outright scams. Others, even some mainstream financial companies, claim to let you buy bitcoin, but in reality it's only "paper bitcoin" – an IOU – which prevents you from benefitting from the independence that bitcoin makes possible.

There are many good sources for getting your first bitcoin. It's best to choose a company that focuses only on bitcoin, not other crypto. We designed Coinbits to be the best choice, and hope you'll consider it. A feature of Coinbits that many newcomers like is Round Ups, which lets you buy bitcoin with your spare change, eliminating uncertainty about when and how much to buy.

2. Accumulate

Once you've taken the first step, the next is to steadily build up your bitcoin holdings over time, regardless of the price. A popular strategy is **dollar-cost averaging**, or DCA, which means repeatedly purchasing a fixed amount of an asset at regular intervals.

The DCA feature on Coinbits lets you set up different types of bitcoin savings plans depending on your goals.

3. Take Custody of Your Private Keys

As a bitcoin holder, it's crucial to take control of your **private keys**, which grants you full ownership of your digital assets and eliminates counterparty risk – the risk that is inherent when you trust another person or institution to safeguard your funds.

One way to securely store your private keys is to use a "hardware wallet," potentially with a multi-signature ("multisig") setup for added security. More information about how to navigate this process is provided later in this chapter.

4. Opt Out of Fiat

Actively engaging with the bitcoin community and supporting fellow bitcoiners by doing business with them helps strengthen the ecosystem and promotes its growth.

As you seek additional ways to opt out of fiat, consider receiving a portion of your salary in bitcoin, or accepting bitcoin payments for your business.

Another way of opting out is to save for retirement using bitcoin in a tax-advantaged account. At Coinbits, we offer a bitcoin IRA (Individual Retirement Account) for this purpose.

5. Embrace the Values of Bitcoin

People who fully grasp bitcoin come to accept that their holdings are not meant to be traded for more fiat currency in the future. Instead, they recognize it as a superior form of money that will eventually surpass and replace fiat. For this reason, bitcoin is best used for saving, not trading or speculation.

Becoming a Bitcoiner also means living by the values it embodies. Bitcoin connects you to a global tribe of people who share a commitment to individual liberty, private property, and resistance to coercion. Bitcoiners strive to create a world where people have control over their wealth and their futures.

Mindful Measures

As you embark on your journey, it's essential to follow security and privacy best practices to help safeguard your investment.

Use Two-Step Authentication

It is possible with most banking and financial apps to configure your account so that you need both a password and a second numeric code to log in. The password is “something you know,” and the numeric code depends on “something you have” – most of the time, this is your phone. Combining these makes it significantly harder to hack into your account. When an app sends a code over SMS to your phone, you’re using two-step authentication. Even more secure are dedicated apps such as Authy or Google Authenticator. If your financial or bitcoin app supports them, use those instead of SMS.

Protect Your Personal Information

It is increasingly important to put careful thought into your privacy regimen. When you restrict the availability of your personal information, you often trade off convenience. Everyone has a different amount of convenience they’re willing to sacrifice for privacy. As someone who owns bitcoin, privacy is especially important, since your assets may one day appreciate so significantly that you could become a target of criminals and fraudsters.

Plan Your Estate

Make sure that, if something happens to you, your heirs can access your bitcoin. By including your bitcoin in your inheritance plan, you avoid ambiguity about who owns it. You can also take steps to prevent permanent loss of access to it. If you’d like help planning an estate with bitcoin, reach out.

Don’t Talk About How Much You Have

Never tell anyone how much bitcoin you own. Treat this information as even more secret than how many dollars you have.

Hold Your Own Keys

Bitcoin allows you to be your own bank. It accomplishes this by way of **self-custody**, which means that you personally hold the private key to your bitcoin, and are the only one with access. In this day and age, there is simply no reason to let "crypto exchanges" have access to your private keys.

When you hold your own keys, you have a physical object in your possession with a secret code written on it. That code lets you move bitcoin from one address to another.

Weigh the Risks

Risk is a part of being alive – there's no way around that. Self-custody is not without risk. However, the *type* of risk is fundamentally different from the risk of leaving your coins under someone else's control.

When you take custody of your private keys, you take on the risk that you might lose them, which would mean losing access to your bitcoin forever. However, when you let other people keep your keys for you, you take on counterparty risk – you take on the risk that *they* might lose your keys, or use your keys to take your money.

If this sounds unlikely, consider that many people lost their bitcoin in 2023 when the exchanges holding their keys went bankrupt. And, if this sounds like a problem unique to bitcoin, consider that the banking system in the United States has been an outlier (so far) in being unusually stable and trustworthy as compared to the banks in other countries. And, if you have been following the decline of the U.S. financial system since 2008, you may come to the conclusion that the counterparty risk of banks is increasing at a rapid pace.

Wallet Apps

There are many “wallet apps” for mobile devices that store private keys. They are convenient because they let you spend your bitcoin any time, as long as you have your phone. However, mobile devices are not private or secure enough for large sums of bitcoin. Additionally, if you lose or damage your phone, and you did not back up your keys somewhere else, your bitcoin could be lost forever.

Paper Wallets

To keep a bitcoin private key completely offline, which protects it from hacking, you can simply write it on a piece of paper. However, a fire, flood, or even a spilled drink could make it illegible. Storing a private key this way is a reasonable option if the amount of bitcoin is small. However, for large amounts, paper is also too risky.

Dedicated Bitcoin Devices

A third option is a dedicated bitcoin device. Sometimes called "hardware wallets," these devices are designed with only one purpose: to safely store your private key and sign transactions with it.

When you move bitcoin to an address that is only accessible with a private key that is stored in an offline device, it's called moving your bitcoin to **cold storage**. This is the safest option and the only one that we recommend for large amounts.

When you purchase a dedicated bitcoin device, make sure it comes directly from the manufacturer in order to minimize the risk that it has been tampered with.

Steel Backups

When you use the device for the first time, you'll be asked to note down a list of words that can be used to recover your private key in case the device is lost or damaged. To preserve these words, also called a "seed phrase," some manufacturers sell steel plates that can quickly and easily be etched with the information. Using a **steel backup** maximizes the probability that your seed phrase will survive extreme events such as fires and floods.

Shared Wallets

For large amounts, even a dedicated bitcoin device with a steel backup may not be safe enough from catastrophic failure. Some people opt to use a **shared wallet**, also called "multisig" (short for "multi-signature"), where the private key is divided among several components.

In a 2-of-3 setup, two out of the total three keys are needed to sign a transaction and move funds. This provides more safety because multiple keys would need to be lost in order for the bitcoin to become inaccessible.

There many ways you may choose to safeguard shared wallets. For example, you could keep two keys at home, and one in a safe deposit box. Or, you could keep one key, give one key to a family member, and one to your attorney.

If you'd like help exploring your options for self custody, get in touch.

Key Takeaways

- **Becoming a Bitcoiner means taking action. Every journey begins with a single step.**
- **Take responsibility for your security and privacy. It's easier than you might think.**
- **Hold you own keys. The most important of the many innovations of bitcoin is that you can be sovereign over your own wealth without counterparty risk.**

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Envisioning a Bitcoin World

Relearning Long-Term Thinking

A World United

Relearning Long-Term Thinking

Universal adoption of bitcoin, called the **Bitcoin Standard**, will have consequences that extend beyond mere financial stability. It will radically transform society, allowing people to meet their potential in a way that is impossible without sound digital money. This may sound like an exaggeration, but stop to think: what would the world become if we had a powerful tool to coordinate human activity, maximize economic efficiency, and motivate long-term thinking?

In a world economy powered by bitcoin, we would expect unprecedented leaps in scientific discovery, technological innovation, and cultural exchange. History teaches that periods of renaissance and progress have been underwritten by the availability of hard money that facilitates long-term investment. Bitcoin will do this for the digital age.

If we are ever to build new cities, construct space stations, and open new frontiers, we will need financing based on transparent, sound money that does not depreciate. With bitcoin, our species will regain ability to organize ambitious projects that span vast expanses of space and time.

A World United

A financial system that cannot be manipulated directly through violence and coercion will compel governments to become more accountable to their citizens, and public spending to be more transparent and efficient.

The inability of governments to confiscate the wealth within their economies through inflation to fund military conflict will lead to an era of increased tolerance, peace, and prosperity. The use of a global, universal language of value will break down barriers and foster greater understanding and cooperation among nations.

Bitcoin inspires a grand vision and a sense of boundless possibility. By using the bitcoin protocol to enact the principles of independence, truth, inclusion, and freedom, we take a monumental step toward a bright future.

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