

In Search of Stability

Published on: 9 July, 2021 | Author: Investment Team

Roman centurions during the age of Augustus [earned a stipend](#) of about 3,750 denarii, roughly 38 ounces of gold. Today, in the age of Biden, the average US Army captain earns a salary of about \$70,000, or about 39 ounces of gold at current prices.

Over two millennia, across a multitude of wars, plagues, famines, revolutions and technological progress, the buying power of gold has remained relatively unchanged. Roughly 39 ounces of gold could purchase the labour of a soldier of the military superpower at the time.

The price of gold has not, however, been all smooth sailing. Occasional drawdowns greater than 40% have occurred in the past and will likely occur again in the future. But through the aeons, the buying power of gold has remained stable. And during periods of panic and financial crises, its price is usually uncorrelated or inversely correlated to other growth assets.

Bitcoin, and other cryptocurrencies which some now dub as digital gold, do not however have time on their side. Bitcoin has not yet showed that it is “Lindy”. The Lindy effect, a term popularised by the trader turned philosopher Nassim Taleb, states that the future life expectancy of non-perishables like a technology or an idea is proportional to its current age. Bitcoin has been around for just over 10 years therefore its durability as a stabiliser (an asset that is uncorrelated or inversely correlated to other growth assets) is questionable. The Lindy effect is a heuristic, a sort of mental shortcut. Like any other heuristic, it is not perfect – It is mostly right but sometimes inevitably wrong.

So if Bitcoin and other crypto currencies are not stabilisers, are they growth assets? The clue is in the name. A growth asset needs growth. What are the requirements for growth? A runway (untapped market share) and the ability to re-invest. Crypto currencies in their current form, like gold, can do neither. They both produce no free cashflow, a prerequisite for re-investment.

So why are so many people, and increasingly, professional investment managers enamoured with the digital asset?

First, it could simply be purely speculative. Financial history is littered with speculative manias that often make converts out of the best and brightest. Isaac Newton himself lost money during the South Sea bubble.

Second, it could be driven by momentum. And momentum attracts “professionals” like honey attracts bees. If there is a fee to be made trading bitcoin, a fee will be made.

Third, longer term investors could be making a bet that bitcoin is indeed like digital gold. Both currently have limited industrial use. Gold’s usefulness as a hedge ironically arises from its intrinsic uselessness. Its limited industrial use (only about 10% by weight) means that gold prices are not tethered to the growth of the global economy. Gold is a counter-cyclical asset precisely because it is not industrially significant, unlike other metals such as copper and aluminium. Bitcoin similarly has limited industrial uses and its solution to payment problems has so far been more expensive or complicated than current solutions.

At Tacit, we are not comfortable with any of these reasons. We are not speculators or momentum traders. The third point is perhaps the best. Long-term, Bitcoin or some other crypto currency could well displace, rather than completely replace gold as a stabiliser. As of now, it simply has not passed the test of time unlike gold which has preserved its purchasing power for millennia.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.