

Where is Currency in Crypto?



Tom O’Gorman, a tenured investment manager, joined AP Wealth Management in 2016, bringing with him over 17 years of experience in the investment industry. Prior to working in wealth management, Tom worked in corporate finance for several large companies, including Coca-Cola Bottling, Altria, and the former American Can Co. Tom earned a BA in Economics from Fairfield University in CT and a MBA in Finance from NYU-Stern.

Bitcoin and other cryptocurrencies continue to dominate the headlines and prices seem to fluctuate more in line with Elon Musk’s latest tweets rather than changes in the underlying fundamental value, whatever that may be. Clients rarely call to inquire about investing in traditional currencies, so why are cryptocurrencies suddenly top of mind for so many investors? No one knows the future of cryptocurrency but cryptos seem to be building momentum and it makes one wonder, ‘Where exactly is the currency in crypto?’

Let’s remind ourselves what a currency is. Most countries have a local currency. America has the US \$, Europe has Euros, China has the Yuan, etc. Each of these currencies serves three functions: a unit of exchange (medium to buy and sell goods), unit of account (1 gallon of milk = \$3) and a store of value (deposits in a bank). The extent to which any single currency can fulfill these functions determines how stable that currency is viewed around the world. The historically stable value of the US \$ has enabled it to become the world’s number one reserve currency, meaning foreign countries buy US \$ and hold them in reserve. They do this to hedge against a devaluation in their own currency and to conduct international transactions in dollar-based assets (oil, copper, corn, etc.).

Cryptocurrencies don’t yet serve these functions. Few transactions are conducted in crypto (although it is growing) and very few items are priced in crypto, so its use as a unit of exchange and unit of account are practically non-existent. Ironically, cryptocurrency’s lack of store of value is what makes it so attractive, as its value can swing wildly on a daily basis enabling traders to make quick profits (and losses). Put a \$100 dollar bill in your wallet and you wake up the next day fairly confident about its value. Put a bitcoin in your crypto wallet and you wake up and run to an app to check the price. Sounds a lot like Venezuela.

Crypto investors believe crypto values will increase once



they fulfill the functions of traditional currencies and gain acceptance in the world economy. Eliminating exchange rate considerations in cross-border transactions and removing third party transaction fees from credit card swipes are two highly attractive features of cryptocurrencies. The naysayers argue that the world’s powerful central banks (Federal Reserve, ECB, etc.) will stifle the growth of cryptocurrencies, therefore universal acceptance will never happen and cryptos will become worthless.

As I began, no one knows the future of cryptocurrencies, but they seem to be gaining a foothold in the world economy. The quicker they can start to look like a currency, and less like a day-trading investment, the better for all of us.

Tom’s disciplined approach to wealth management enables clients to attain their financial goals and preserve their wealth. He believes that proper asset allocation and the ability to maintain a long-term focus have been key to his clients’ success. In addition to individual clients, Tom also serves as a financial advisor for small businesses, advising the owners on maximizing cash flow and helping them implement 401K plans.