

The DAILY RECKONING presents...

# THE TOP

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## DIGITAL ALTERNATIVES

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# TO THE DOLLAR

AGORA  
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# The Top Digital Alternatives to the Dollar

*The Daily Reckoning* is bringing you a report on the best alternative currencies: what they are, why they are hot, the pros and cons and how you can use them to protect your assets!

Why are people working on alternative forms of money? It's all about escaping a 100-year-old trend. Back in the day, the dollar was a name for gold, not just a paper ticket manufactured by a government-chartered central bank.

Depression, war and deliberate debasement have left us with a dollar that is a mere shadow of its former self. It keeps losing value, of course, rather than retaining or gaining value, as it would in a free market.

Just as critically, the dollar today serves as the enabler of all regulatory control over our economic lives. Using the dollar means dragging gigantic and burdensome machinery along with you. It means tens of thousands of regulatory controls, government spying, confiscatory taxation and endless burdens that are bad for businesses and individuals.

Ideally, the dollar would be totally reformed, made good as gold and restored to its former integrity. How likely is that to happen? The whole idea depends on the wisdom, good will and public beneficence of the political and elite class of banking moguls.

Is there any wonder that there is a clamor for the private sector to come up with something new? It's been going on for several decades now, this discovery process we might call "**monetary entrepreneurship**."

People in ancient days had to discover the best commodities to progress beyond mere barter. What would best serve as money: Is it salt? Shells? Silver and gold? Many options are available, and only the best money can win the market competition over time.

## The Currencies of the Future Are Rising Today

Something like this is taking place again today. Government money is risky, because governments are always incentivized to abuse it in order to maintain power. People put up with it for convenience and because nothing better seems to present itself.

There is a real opportunity here for monetary entrepreneurs to get to work coming up with something new and letting the markets try it out.

Over the last 10 years, governments have shot down

a number of experiments in private money that used digital networks to monetize gold and silver. It's been a brutal job to retain the government's money monopoly.

Entrepreneurs have learned. New monetary instruments have to protect themselves against government attempts to shoot them down in obvious ways. There are three general ways to do this: back to the basics with precious metals, onward to the future with purely digital money or some combination of both of these.

We're going to cover, in brief, a few of the best alternative currencies out there. These represent early but promising experiments in digital currencies free of central bank manipulation that you can use as any other currency as an investment, a hedge against inflation and central bank irresponsibility or as untraceable currency for anonymous online transactions.

## Bitcoin: What It Is, How It Works, Why You Should Care

If you've heard of any new currency, it is probably Bitcoin. Since it was first launched in 2009 by a mysterious programmer known as "Satoshi Nakamoto," Bitcoin has gained in popularity and value by leaps and bounds. It's also crashed.

Fully exchangeable for U.S. dollars and other major currencies at exchanges.

A Bitcoin is essentially a code consisting of a string of letters and numbers that is exchanged on an open public network that exists on the computers of its users.

You may be a bit skeptical about a digital currency that is nothing more than lines of code in a computer network.

But before you draw any conclusions, remember that all the dollars in your checking account are exactly that — mere lines of code. They do not reflect real paper dollars and coins, although they can be exchanged for such if you so desire. Most of the dollars in existence have never been in paper form, only digits in the computers of the international banking system.

Banks have layers of security systems to protect that code from hackers and thieves. Bitcoin doesn't have that, but has remained nearly hackproof by an innovative coding system that incentivizes would-be

hackers to just become “miners”: in other words, to profit from helping the system grow, securitize and stabilize, rather than trying to steal from it.

So despite a few bumps in the road, **Bitcoin continues to grow tremendously, free of any central bank manipulation or government control.**

In fact, Bitcoin has been such an enormous success that the government is finally taking a close look at it and trying to regulate Bitcoin/dollar exchanges.

So why should you care?

Given its ability to increase in price like a stock as demand rises, coupled with its increasing use as a currency as well as the stable, predictable increases in supply preprogrammed into the source code, some people believe **Bitcoin may prove to be the currency of the future** — a currency not at the whim of central bankers, increased arbitrarily to keep a zombie economy afloat.

It is totally independent, unalterable and subject only to the laws of supply and demand. While investment in an untested currency system will always have its risks, the number of people willing to test Bitcoin is growing rapidly, particularly in times of economic and fiscal crisis, such as the recent debacles in Cyprus and later, Greece.

Bitcoins will, of course, continue to rise and fall with market economics. Even if these recent highs sag again, the currency gives every indication of resilience to technical problems, hackers, bubbles and market fears and may join gold and silver as a choice inflation hedge for international markets.

## Is Bitcoin Real Money?

Bitcoin is compatible with the Aristotelian definition of money in that it expresses the following traits:

**Durability:** Bitcoin exists on the networks of its users. Just like the Internet, there is no singular switch to turn Bitcoin off — you would literally have to turn off the entire Internet to take down the networks. Bitcoin has already seen tremendous volatility, and the user base has remained loyal due to the freedom, flexibility and anonymity it provides.

**Portability:** Bitcoins are lines of code that can be kept in a flash drive, or you can memorize your private key information. You can put the flash drive in your desk, in a bank vault or anywhere you want and it will still be recognized by the network as yours when you return to the system to transact with it.

**Fungibility:** Bitcoin is divisible up to eight decimal places. That means that at its current

growth rate of 3,600 Bitcoins per day, the ultimate total amount of 21 million Bitcoins ever to be on the market can be divided among billions of people on the planet.

**Intrinsic Value:** Bitcoin is the first significant experiment in digital currency. A bet for Bitcoin is, in a sense, a bet on human progress. Thanks to its anonymity, Bitcoin grants users privacy in a world where privacy is becoming increasingly scarce.

## What Can You Buy With Bitcoins?

There are over 1,000 online storefronts currently accepting Bitcoins as payment. A few examples are:

- **Bucarelli**, seller of iPad and MacBook leather cases
- **schuhwelt.com**, seller of top leather shoe brands
- The Fine Things Store, an online antique store
- **Survivalfood.com**, seller of MREs (Meals, Ready to Eat)
- **Electronic Cigarette**, seller of e-cigarettes
- And over 500,000 products at **bitcoinstore.com**, the world's largest superstore that uses Bitcoins, selling mostly electronics.

A more complete list can be found [here](#). The list is small now, but rapidly growing. In a few years, Bitcoins may be accepted just about anywhere.

There are even a few adventurous brick-and-mortar retailers that currently accept Bitcoins: Meze Grill, a Mediterranean food restaurant in New York City; Sugar, a wedding cake shop in Oklahoma City; and The Arms Locker, a firearms retailer in Pittsburg all accept Bitcoins as payment.

## How Do You Get Started?

You can “mine” Bitcoins or buy them. Since the popularity of Bitcoins (and, thus, the price) has increased dramatically in the early months of 2013, mining (essentially using costly computer software to generate Bitcoin code online) is getting more difficult and expensive as Bitcoin's popularity increases, making purchasing Bitcoins the better bet for anyone who isn't a devoted techie.

If you are so inclined, you can purchase Bitcoins with U.S. dollars (and a list of other currencies) at **ICBIT** and **Tradehill**. Tutorials are available [here](#) and [here](#).

Bitcoin applications are flourishing all over the Web. Among them:

- **Bitspend.net**, which allows you to use BTC on any website
- **Bitpay.com**, which enables payments on any website
- **Coinbase.com** is a popular place to buy and sell BTC, plus it gives you a local wallet
- **Bitcoinstore.com** is the emerging Amazon of BTC
- **Blockchain.info** is the application that many smartphone users choose.

If you are a hard money fan, you can even buy physical Bitcoins, a minted metal coin that contains a tamper-proof line of real Bitcoin code. Check out [www.casascius.com](http://www.casascius.com).

Keep in mind that Bitcoin is a new technology. The value of the currency can rise or fall sharply, so there is a significant amount of risk involved. Approach it with caution and do your research, as with any other asset.

## A Magic Wallet that Saves Consumers \$43 Billion Per Year

*By Dominic Frisby*

When you type a website address into your web browser, you might have noticed that the letters “http” appear at the front.

HTTP” stands for Hypertext Transfer Protocol. In typing a Web address, you are actually sending an HTTP command to transmit that website to you. Hypertext Transfer Protocol is the means by which information is shared across the Web.

Similarly, when setting up an email account, you might have noticed the letters “smtp” — for example, “smtp.gmail.com.” SMTP stands for Simple Mail Transfer Protocol. SMTP is the protocol by which we send emails to each other.

A protocol is the means by which information is shared across a network.

You earn bitcoins by doing or selling something in exchange for them — just as you would earn normal money.

Bitcoin — with a capital “B” — is another protocol. The function of this protocol is to send and receive payment.

The unit of money on the protocol is the “bitcoin” — with a small “b.”

You earn bitcoins by doing or selling something in exchange for them — just as you would earn nor-

mal money. If I do this job for you, you could pay me in bitcoins.

You buy bitcoins just as you would buy and sell foreign currency. You pay some money to someone, usually at a Bitcoin exchange, for which you receive some bitcoins.

And you can make your own bitcoins by mining them, but we’ll go over that on another day.

You keep your bitcoins in a wallet. There are hundreds of places to get a wallet, just as there are hundreds of places to get an email account (blockchain.info is as good a place to start as anywhere). People will often have more than one wallet — one on their computer and another with a Bitcoin service provider.

So how can Bitcoin change the world?

The reason Bitcoin technology is potentially so disruptive and transformative is that it’s a new, efficient form of money. And money, which has been inexplicably ignored by mainstream economists for so long, is, of course, at the heart of almost everything we do.

Bitcoin could change the way we make and receive payment. It could change the way we store money. It even has the potential to change the actual money we use.

Think about the possibilities of that for a second.

You’ll no longer need banks to store your money — you can store it on your computer with a Bitcoin service provider. You’ll no longer need banking networks to send or receive money — you just send money as you would send an email. And you’ll no longer need governments to issue the money you use. Forget dollars or pounds; you can use bitcoins instead. The social implications of governments and banks losing control of money are considerable.

This is all great in theory. But what will make Bitcoin irresistible in practice is its sheer efficiency.

Goldman Sachs IT analyst Roman Leal has calculated the savings that Bitcoin could have made in electronic payment in 2013 if Bitcoin had been used.

Let’s start with simple money transfer — sending money from one person to another.

Consumers currently pay a fee of about 10% of the total amount transferred if they use a traditional money transfer network such as Western Union. This fee covers agents’ commissions, forex, and access to the network.

With Bitcoin, that fee would be zero — or 1% if you use a service provider such as BitPay or Coinbase. There were \$550 billion of remittances in 2013 generating \$49 billion of transaction fees. With Bitcoin, those fees fall by 90%, to just \$5.5 billion. That



means an extra \$43 billion would actually make it into people's pockets.

As for electronic payments in retail, currently retailers pay around 2.5-3% in fees. In 2013, global transaction fees were \$260 billion on over \$10 trillion of sales. Had Bitcoin been used (again using a 1% estimated figure), the number would be \$104 billion — a saving of almost \$150 billion.

Leal notes that all “merchants would realize sizeable savings” by using Bitcoin, but small merchants would benefit most. They “can reduce their payment processing fees by at least half.” For a business that runs on low margins, that is a compelling number.

These kinds of savings are irresistible.

Then there are those who are currently shut out of the current financial system: 53% of the world's population is still “unbanked” — they have no use of formal or semi-formal financial services. Most of them will have a mobile phone before they have a bank account.

With Bitcoin — and other forms of digital payment — these people suddenly have means to make and receive payment over distance. How much untapped potential is there waiting to be freed when the unbanked start to get access to basic financial services?

The core protocol of Bitcoin is sound. In fact, it has unprecedented reliability and security. The edges, however, are vulnerable. Third parties, such as the now defunct bitcoin exchange Mt. Gox, have not figured out how to act like proper financial institutions. Certain operating systems using the protocol are insecure, rendering bitcoins vulnerable to theft.

There are also issues with programmers who have failed to understand how the blockchain — the Bitcoin central database — works.

But these are all issues that will be dealt with as the technology develops. The point is the core protocol is sound. It — or some replication of it — could send banks to the same forgotten part of town that the Internet has sent newspapers to, as well as free up the possibility for many millions of people to better their lot through trade and exchange.

## How to Safeguard Your Digital Currency

Prevent Your Digital Cash From Getting Stolen With These Storage Solutions

The technical details of Bitcoin can be quite confusing for the novice. But this shouldn't stop you from getting involved in this great money revolution. You can be up and running quite easily without having to understand all the jargon.

But taking a roll of the dice to multiply your wealth is not much good if your bitcoins get stolen. And make no mistake: This can happen. In fact, over the last five years, over half a billion dollars' worth of bitcoins have been stolen. It's thought that as many one in 16 bitcoins is now sitting in the wallet of a thief.

*“It's crucial to properly secure your bitcoins. Because the reality is that it's the Wild West out there in the digital world.”*

This is why it's crucial to properly secure your bitcoins. Because the reality is that it's the Wild West out there in the digital world. There are outlaws and bandits and goodness knows what else — and these hackers know the turf much better than you do. So if you do decide to invest in Bitcoin, here are some precautions you should take.

### Think of Bitcoins as Digital Cash

If you have a load of cash, you take steps to look after it. You keep it in your pocket. You hide it at home. You leave it in a bank. What you don't do is leave it lying about where anybody can take it.

Bitcoin is no different. It's a form of cash. Bitcoins exist in the digital world, but they're not like the virtual dollars that are sitting on a bank balance sheet somewhere. They're like the physical dollars in the bank's vault or in your pocket.

### Web Wallet

To use bitcoins, you need a wallet to keep them in. You can get wallets as easily as you can sign up for an email account. I have more than one. I'd recommend you do too.

I have a Web wallet that I store online. I can access it from my computer or from my phone.

I regard this as the wallet in my back pocket. I keep the bitcoins that I use on a day-to-day basis in there. If the wallet gets hacked, it's a pain in the backside, just as losing your normal wallet is a pain. I lose the equivalent of a couple of hundred bucks or something — but it's not going to be the end of the world.

So I'd recommend having a Web wallet. The easiest and (currently) most trusted places to get one are **Coinbase** and **Blockchain**. But I wouldn't keep large amounts of coins in one.

### Desktop Wallet

You can also have a desktop wallet. I don't use one, but a lot of people I respect do. One of the benefits is that you're not relying on somebody else to look after your coins; they're on your machine at home. A drawback, though, is that they are vulnerable to malware (software designed to disrupt computer

operation or gain access to private information). Among the most trusted desktop wallet providers are **Armory** and Multibit.

## Hardware Wallet

Finally, you can have a hardware wallet. That's a bit like a safe at home. In fact, you might put your hardware wallet in your safe. Look at [the wiki page](#) for more information on these. They're the safest place to store coins, but the least practical for making payments to and from.

## Storing Bitcoins With a Third Party

You can also consider using a service provider to keep your coins in "deep cold storage." This is a process whereby your coins are encrypted and stored on a computer that's not connected to the Internet. It's a bit like putting your cash in the bank.

The one problem with this method, though, is that you're relying on a third party, and that always leaves open the possibility that they could go belly up. Mt. Gox — at one time the largest Bitcoin exchange — was one such firm, after all.

The whole point of Bitcoin is that you're supposed to be getting rid of third parties. Nevertheless, these services provide an essential service to some, and most of them will not go the way of Mt. Gox. It's unlikely other companies will be so badly run — indeed, most will have learned from Mt. Gox's mistakes. **Coinbase** and **Bitstamp** are among the most reputable.

## Practical Steps to Keep in Mind

Finally, here is some general advice on ensuring your bitcoins are safe and secure. Use only your own phone or computer for transactions. Make sure your wallet address and password or key are kept separately. Back up your wallet on a hard drive that is offline, just as you would back up other data on your computer.

If you keep your coins in "deep cold storage" — whether with a service provider or on an encrypted, offline hard drive at home — they should be safe. But you can't be too careful. As the expression goes, don't put all your eggs in one basket. It's wise not

to keep all your bitcoins in one place if you have a sizeable quantity. Split them up between wallets.

Regards,

Dominic Frisby  
for *The Daily Reckoning*

## Conclusion

A year ago, there were more skeptics than there are today. And this is because the market is expanding. There are even many people who are paid their normal salaries almost exclusively in Bitcoins. There are companies planning to go public in Bitcoins, which thereby means completely bypassing the SEC and the whole regulatory apparatus.

As you can see, we are really talking about the emergence of a counter-economy, a free-market universe that runs parallel to the dollar-based economy.

Skeptics say, "But I can't use any of these monetary instruments to pay rent, buy a car or get groceries." Well, that's because these ideas are all ventures that take time to develop. Money is like any other good: It begins with speculation and goes through a period of gradual adoption until it is universal.

Why wait for monetary reform to come from the top? If the market wants a higher-quality money, one that frees markets and makes economic exchange more beneficial, markets will create it out of existing resources and realities. This can happen even when government objects. Government can only defy human desires for so long before people decide that the costs of compliance outweigh the benefits.

The government's money monopoly is crucial to its control over society. What happens when that comes to an end? Imagine the future.

Sincerely,



Chris Campbell  
Managing Editor, *Laissez Faire Today*