

DAILY RECKONING

Bitcoin/Cryptocurrencies

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The Top Alternatives to Fiat Money for the Digital Age

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 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 get progress beyond mere barter. What would best serve as money: something to acquire not to consume, but to trade for other things to consume? 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.

Fully exchangeable for U.S. dollars and other major currencies at exchanges such as Tokyo-based Mount Gox, the value of a Bitcoin has risen from a few cents in 2010 to as much as \$96 in 2013. The total number of Bitcoins in circulation recently passed \$1 billion worth, exceeding the total official money stock of 20 sovereign countries, including Liberia and Bhutan.

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 hack-proof 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.**

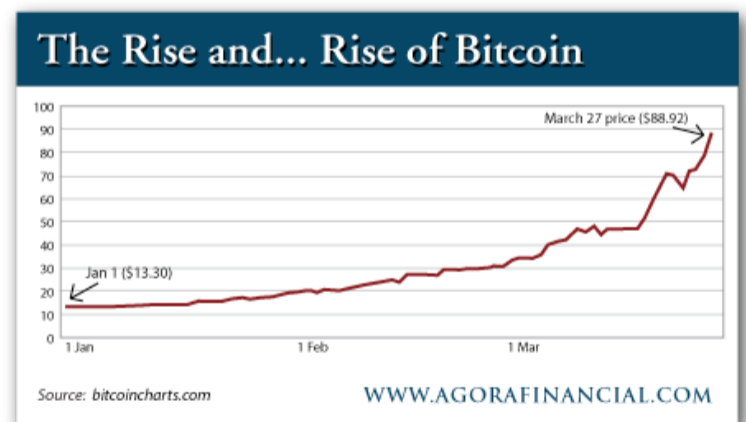
In fact, Bitcoin has been such an enormous success that the government is finally taking a close look at it and trying to regulate Bitcoin/dollar exchanges.

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, **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 debacle in Cyprus.

Between January and March 2013, Bitcoin has proved an asset with enormous returns...



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 **Mt. Gox**, **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.

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.



Shire Silver Cards: Gold in a Card

Shire Silver creator and entrepreneur Ron Helwig wanted a solution to the problem of carrying very small values of physical gold around in your pocket. It's a simple, but ingenious idea: He takes various strands of gold and silver of many weights and laminates them in a credit card-size monetary instrument.

The result is convenient and easy to carry and spend. He is not the only maker of these cards. Many others are picking up the idea — a fact that makes Mr. Helwig very pleased, as he has no intent to file patents or copyrights on his product.

Shire Silver cards are commonly accepted all over New Hampshire, but they are in use all over the world. Helwig gets orders from New Zealand, Brazil and even Japan. Some orders are valued as low as \$6, but he receives orders valued at \$5,000 too. At the Liberty Forum in New Hampshire in February 2013, he showcased his new cards to great response and could barely keep up with demand.

A **list of merchants** that currently accept Shire Silver cards can be found on the website, and includes precious metals dealers, medical equipment suppliers, eBay merchants, grass-fed beef farms and website builders. With business booming, it seems the use of Shire Silver cards is likely to continue to expand.



The Rise of Local Currencies

Local paper currencies have been around for many years and have parallel status to the dollar. Transactions are still taxable, and most currencies

have a dollar value and are thus exchangeable. They have been successful largely because they help maintain local business traffic by encouraging local purchases, and have increased in usage since 2008. Here is a sample of the 20 or so active local currencies in the United States in the media:

- In southern Maryland, many people have begun trading **Anacostia Hours** and **BNotes** (Baltimore notes, shown above), alternative currencies developed during the financial crisis of 2008 to allow unemployed workers to trade hours of work for products. The currencies are printed on paper and can be exchanged at several local businesses such as food co-ops and coffee shops
- “Pittsboro, N.C., is reviving the **Plenty**, a defunct local currency created in 2002. It is being printed in denominations of \$1, \$5, \$20 and \$50. A local bank will exchange \$9 for \$10 worth of Plenty”
- In Massachusetts, locals use a currency called BerkShares. “Under the **BerkShares** system, a buyer goes to one of 12 banks and pays \$95 for \$100 worth of BerkShares, which can be spent in 370 local businesses. Since its start in 2006, the system, the largest of its kind in the country, has circulated \$2.3 million worth of BerkShares.”
- “In Detroit, three business owners are printing \$4,500 worth of **Detroit Cheers**, which they are handing out to customers to spend in one of 12 shops”
- Portland, Ore., has had a local currency called the **CHE**, equivalent to about \$10, since 1993, and its usage has taken off since the 2008 crash, with exchange “even expanding to surrounding communities. Like most local currencies, it was created to encourage local spending on goods and services. Founder John Poling said, “The economy is in trouble and people don’t trust the Federal Reserve and they don’t trust the government, so this is somewhere they can turn, and somewhere they can still do business if the banks close.”

Interesting in setting up your own local currency? There is a free guide [here](#).

Conclusion

A year ago, there were more skeptics than there are today. And this is because the market is expanding. There are websites that accept only Bitcoins, such as Silk Road. 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,

Greg Kadajski
Managing Editor
The Daily Reckoning

P.S.:The End of Central Banking

Over the years, nations have gone from the gold standard to today’s “Ph.D. standard.”

But central bankers the world over could start watching their backs as a new alternative rises from the marketplace.

This new solution just may be the secure and decentralized currency that beats the dollar, euro or even gold!

Click [here](#) to learn more about the revolutionary solution.