

# **Rashmin Sanghvi & Associates**

## **Crypto Currency (CC)**

There are controversies over whether a Crypto Currency is Cash, Security or a Precious Metal.

### **Compare CC with**

Summary: Slides 2 & 3

Cash (slides 4 & 5), Cheques (slide 6 & 7),

Shares (slides 8 to 16)

Precious Metals (Slide 17).

## 2. Functions of Money

- Money has three functions: medium of exchange, store of value and measurement of value. Cash, cheques, hundis, credit cards etc. do the function of being medium of exchange.
- Any instrument which does not perform any one of the three functions, cannot be accepted as money or cash currency.

### 3. Shares, Securities & Precious metal Summary

- A security represents underlying value – a business; or an asset.
- A precious metal – whether gold, silver or platinum carries its own intrinsic value. These metals can be used or consumed.
- Any instrument/ computer symbol that: has no underlying value is not a security;
- Computer symbol has no intrinsic value; nor can it be used or consumed. Hence it is not a precious metal.

## FIAT Currency (Cash)

4. There is no underlying asset for issue of Indian Rupee & U.S.\$.

These currencies are accepted as money/medium of exchange because of FIAT/law/order issued by a Government.

In addition, the Governments maintain an elaborate network & play in the market to maintain value.

## Crypto Currency (CC)

There is no underlying asset for initial issue & subsequent generation of Bit coins & most of the crypto currencies.

There is no Government, FIAT/law/order. There is no compulsion for anyone to buy a crypto currency,

But market makers are successful.

If expert market makers are there; public is ready to buy. Over & over, again & again.

## FIAT Currency

5. However, note that – when one man pays by currency (whether notes or cheque etc.) the receiver is entitled to get value. The receiver can use the currency for buying groceries or capital investments. The next party has to accept currency under law.

**Law is the force behind a currency.**

## Crypto Currency

Crypto Currency is used in a limited manner for exchange function.

Can be used for illegal money transfer.

**Media hype is the force behind a crypto currency.**

## FIAT Currency

6. For regular currency payments banks & other intermediaries are a must.

Banks levy their charges for remittance as well as for currency conversions.

Banks are subject to Regulator's supervision.

All bank transactions are caught in the internet - scrutiny under Prevention of Money Laundering Act.

## Crypto Currency

Major Attractions of Bit Coin are that Government or any other Regulator's intervention is difficult. Hence one can make legitimate business/ personal payments without restrictions under FEMA.

Also illegitimate/ criminal payments can be made.

Since Bank or other intermediaries are not required, their bank charges don't have to be paid.

The Crypto Currency system does charge a transaction cost. But it is relatively small.

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## Cheque

7. A person issues a cheque - payable to bearer. Illustration:

Mr. A draws a cheque for Rs. 1,000/-

Mr. B draws a cheque for Rs. 1 crore

Cheque is a negotiable instrument and it can circulate in the market.

Mr. A & Mr. B have zero balance in their bank accounts.

## Crypto Currency

ICO issuers have zero asset underlying their crypto currencies.

Both are comparable.

You think before you accept such a cheque or such a Crypto Currency.

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## IPO - Shares

8. In an IPO, a Company issues shares.

Shares are dematted. So nothing tangible is delivered.

Share subscriber's title to the share is safe guarded by custodians.

## ICO - Crypto Currency

In some ICOs there is no prospectus at all. Those who issue prospectus, there is no vetting. In an ICO, the issuer gives a software code representing a coin. Nothing tangible is delivered.

Bit coin subscriber's ownership of & transfer of Bit coins are guarded by a network of nodes.

This fact is highlighted as major benefit of Crypto Currency.

## IPO - Shares

9. The company issues a prospectus laying down a project; its capital cost & projected profitability. Understanding is that the company may make profits & may declare dividends.

Prospectus is vetted by auditors, merchant bankers & SEBI.

## ICO - Crypto Currency

In the Bit Coin there is no underlying asset and no project. No value. No one will make profits by any business. No dividends will be paid.

The holders just hold a coin by the "Greater Fool Theory".

Every buyer/ holder hopes that he will get a greater fool to buy his Bit coin. This hope is encouraged by media hype.

## IPO – Shares

**10.** Shares are traded on Exchanges.

These exchanges are supervised by SEBI.

**11.** Some traders/ speculators consider the strength of the company, its capability to continue to earn, the Fundamentals. These people make their own analysis of value of the shares.

Different perceptions in values create market.

## ICO – Crypto Currency

Bit Coins are traded on exchanges.

There is no supervision by any regulator.

In a Bit coin there is no project, no asset – nothing to analyse.

All perceptions are based on thin air.

Different perceptions in value of Bit coins create market.

## IPO - Shares

12. Most speculators are not at all bothered about fundamentals. They just speculate. Share markets have lost their connection with Economy.
13. There are official market makers in shares. They hold a large quantity of shares of certain companies. They buy & sell shares as per market demands.

## ICO - Crypto Currency

Bit coins never had any connection and will not have any connection with fundamentals. So naturally it can't have connection with economy.

There are unofficial market makers.

## IPO - Shares

14. There are other types of market makers. They create a hype through media by share market operations & tempt gullible people in buying shares.
  
15. If a company made on IPO and the promoters told the market that - "All the money that they will get out of IPO, will be their personal gain. They will enjoy a luxurious life. Subscribers are entitled to envy them." How many people will subscribe to the IPO?

## ICO - Crypto Currency

Whole Bit coin is running on media hype & rapid movement in price of Bit coin.

ICO promoters don't say such things. When they have no worth while project, one has to understand their silence.

There is no SEBI/SEC forcing them to make a proper disclosure.

## IPO - Shares

16. Consider a case of IPO issue - where the prospectus is not vetted by any auditor or merchant banker.

There is no regulator like SEBI.

And there is no requirement to run a project or publish quarterly/ annual audited accounts

How many investors will subscribe shares?

## ICO - Crypto Currency

For ICO, there is no auditor, no SEBI/ RBI.

No project, no annual accounts.

How many investors buy coins/ subscribe to ICO?

# 17. CC & Precious Metal

- All precious metals have uses. **Industrial** use & decorative/ demonstrative use as **jewellery**.
- An accountant may not consider jewellery as a significant economic activity. But ladies are not ruled by accountancy. They want jewellery. Commerce means, satisfying a demand by consumer – without going into its merits & ethics & accounting principles.
- No woman shall carry a label on her necklace that she owns X number of Bitcoins. That is it. CC is not a precious metal.

# 18. Conclusion: CC is worthless

**Conclusion:** Crypto Currencies that have no underlying value - do not serve any function of money, securities or commodities. They are worthless.

- **Question:** Then why do so many rich people buy CC?

# 19. People Psychology

**Greed:** If someone tells people: “They can make real big money”, “Others have made big money” and “Act before you are left out”;

There will be many who will jump at it.

If someone has made money & his lavish lifestyle photos/ videos appear in the media – it has “demonstration effect”.

## 20. People Psychology

Then they do not need any logic or rational thinking. If you tell them that a CC is worthless, or that 'You might be cheated'; they will say:

“So what”?

“This time it is different”.

“All those experts can't be wrong”.

“I will get out before others”.

“There will be a buyer – who also does not care about fundamentals”. (**Greater Fool Theory**)

# 21. People Psychology

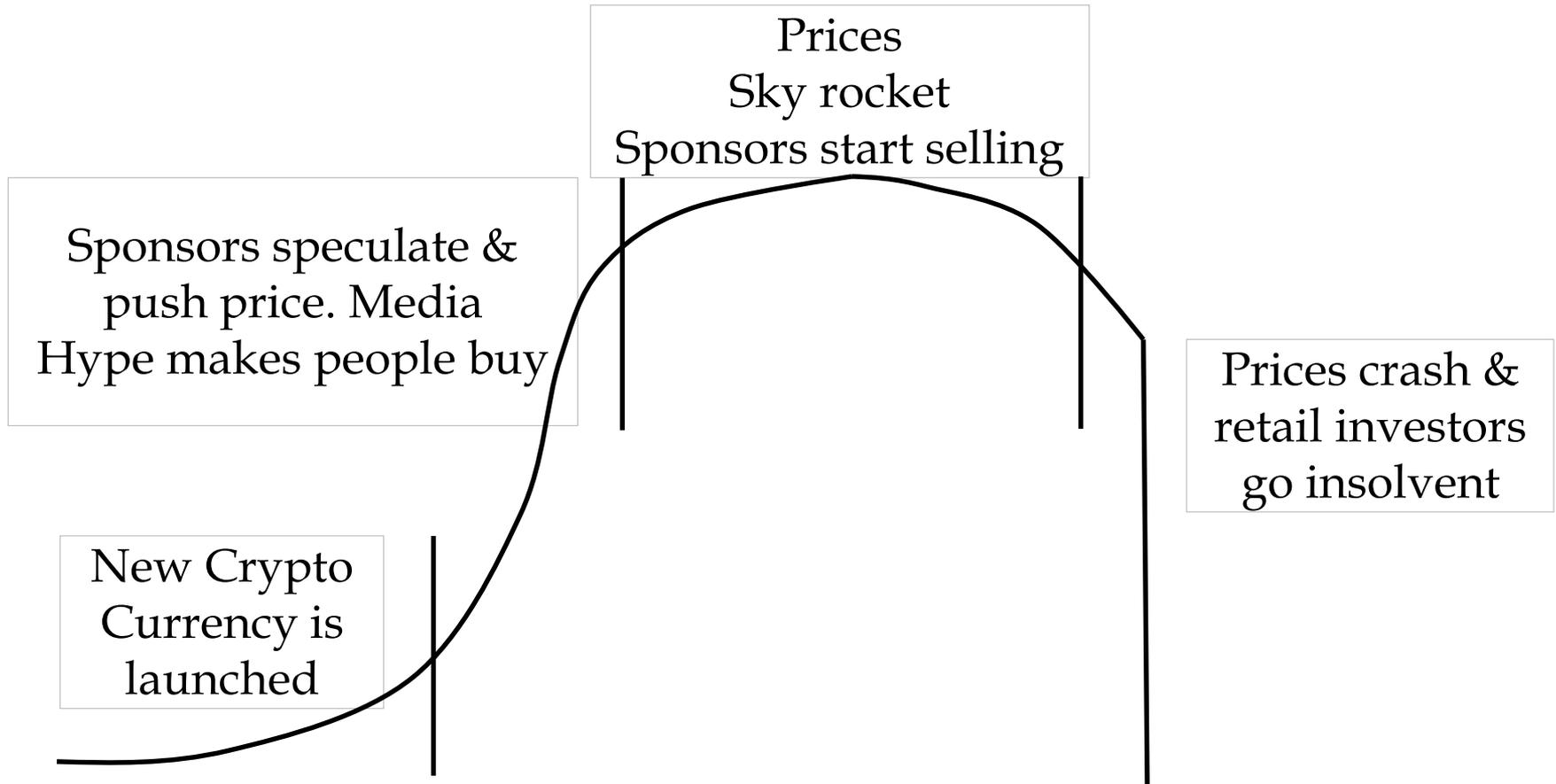
Bit coin proponents even advertise - it has “No Intrinsic Value”. I am not surprised at the audacity of such proponents. In a world where so many “Babas” have become billionaires, anything can sell.

Fundamental human psychology:

Most people are greedy. Ignite their greed & they will forget all logic.

22.

# Crypto Currency Scandal Chart



Remember, a very intelligent scholar becomes a gullible investor when caught by Greed.

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# 23. Bit Coin Price Movement

## Yearly Trend from 2010 to 2018

Year	Cl. Price	Open	High	Low	Change %
2010	0.3	0.09	0.39	0.09	233.00%
2011	4.25	0.3	28.92	0.3	1316.67%
2012	13.45	4.25	13.5	4.25	217.65%
2013	754.76	13.45	1147	13.45	5511.60%
2014	309.87	754.76	951.39	309.87	-58.95%
2015	429	309.87	465.5	177.28	37.52%
2016	966.7	429	983	353	126.85%
2017	13800	966.7	19891	738.7	1327.54%
2018 (Upto 22/02/18)	10139	13794	17252	6000	-26.53%

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## 24. Future of Crypto Currencies

- I. Most of them will crash leaving investors with big losses. Then, the Regulators will come into action. Prosecute people, arrest & so on. Main sponsors would have disappeared. (Remember: Police & Rainbow appear after the storm is over.)
  
- II. Governments can sponsor CC as their currency. Corporates can issue CC with full intrinsic value. These developments can work very well.

## 25. Future of Crypto Currencies

Swiss Banks:

If a Black Money holder & a Criminal Money holder can invest in a Crypto Currency and hide his wealth from all regulators;

he won't need Swiss & other Tax haven banks.

Banks will lose business.

Don't worry about Switzerland. It has already adopted CCs in a big way.

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## 26. Illusions - MAYA

Now go to the root of Crypto Currency Logic.

Value of Money, Gold, Shares & Securities – all are illusions. Why not have one more illusion?

A person who understands Indian concept of “MAYA” will understand illusions & their power over human beings.

**27.**

## **MAYA - India**

**Money is an illusion.**

Proponents of CC argue - when Government currency has no intrinsic value & hence it is an illusion, what is wrong with zero value CC?

Government of India & RBI created **17 trillion illusions** by issuing cash worth Rs. 17 trillion.

Banks multiplied those illusions by money multiplier -

Indian total money supply M3 is Rs. 135 trillion.

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## MAYA - USA

With this understanding, Government of **USA** is the biggest seller of illusions.

US \$ supplied by US Government + Fed - \$ 1.61 trillions. This amount does not include Quantitative Easing & Bail out packages.

Total money supply in USA \$ **20 trillions.**

29.

## MAYA - Global

**Gold is a solid illusion.**

Gold Bonds are illusions upon illusion.

Diamond is a big illusion.

A lady's opinion:

“A necklace with diamonds studded on platinum can make my lady friends jealous. I don't care if economists call these beautiful precious jewellery as illusion.”

“I can't exhibit Bitcoins & can't make anyone jealous. Bitcoins are useless for me”.

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30.

## MAYA

**Share is an illusion.**

Derivative contract is illusion X illusion X illusion.

We the weird specie called “human beings” **ravel in illusions.** (Maya).

Then why not one more illusion – Crypto Currency?

**31.**

## **MAYA**

### **Golden Formula for scandals:**

Design something impressive (attract people)  
complex & ambiguous – so that none can prove or  
disprove it

show dreams – really high profits.

The dream shown by you should be sufficiently  
big to ignite the greed of rich people.

32.

## MAYA

Have capability & intelligence to manage media and market operations. Sustain them for sufficiently long period.

Note that – people are buying these illusions at astronomical prices – because – they are confident of being able to sell them at higher prices. If prices start falling, after initial hesitations; there will be an avalanche of people wanting to sell their CCs.

This would mean a 90° fall in prices.

**33.**

## **MAYA**

Consider Harshad Mehta's operations – One company share price went from Re. 0.25 to Rs. 1400.

**34.**

## **MAYA**

Any amount of Intelligence, wealth & weapons is no protection against the power of Maya.

The Greedy will run after such promises like -

The children running after the Pied Piper of Hamelin.

## **35. Escaping from Greed is the only Protection against Maya**

Some illusions last a life time.

In Adi Shankaracharya's words,

“This Sansar is an illusion”.

Seven Billion people don't care. They love this illusion.

“Sansar will last for my life & my 7<sup>th</sup> generation children's lives”.

## **36. Protection from Maya**

Cash will last for my life.

But illusions like CC will keep crashing.

I am not for illusions that can crash tomorrow or in a year or two.

Escaping from Greed is the only  
Protection against Maya

- Thank You

- Rashmin Chandulal Sanghvi