Banking 2.0

Ian King

Banyan Hill's STRATEGIC FORTUNES

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By Ian King, Editor of *Strategic Fortunes*

"GRADUALLY, then suddenly."

That's the way the protagonist described his bankruptcy in Ernest Hemingway's novel *The Sun Also Rises*. But the quote's meaning has shifted to a new direction over the years.

It's also a way to think about the pace of technology. Development of new technology feels very slow at first, but then suddenly it's ubiquitous.

Twenty years ago, after the dot-com bubble blew up, many investors viewed the internet as a passing fad, like Beanie Babies or disco music. At the time, the web was full of phishing scams, credit card fraud and Nigerian princes.

But they were wrong. The internet continued to grow. As the years passed, new online startups found solutions to real-world problems. Then came the social media era, which brought forth massive companies such as Facebook, Twitter and YouTube.

Before we knew it, the internet was everywhere.

A decade after dot-com, the smartphone era arrived. Smartphones were initially clunky and slow. My first Palm Pilot didn't even fit in my pocket. And the chip was only as fast as a standard scientific calculator.

However, when the iPhone rolled out in 2007, it took the smartphone game to an entirely new level. The functionality and processor were light-years beyond older models. Its screen was sleek and doubled as a keyboard, leaving extra room to surf the web, browse photos and watch videos.

Within a decade, smartphones were everywhere. We used to gawk at people carrying Palm Pilots and BlackBerrys. Now we judge anyone with a flip phone.

No one imagined how quickly the internet and the smartphone would catch on.

In the late '90s, during the dot-com bubble, there were only 200 million internet users.

Now there are over 5 billion.

The same goes for smartphones. In 2007, there were 122 million sold. And last year there was nearly 1.5 billion. That's over 12X growth in 15 years!

And like their technological predecessors, things in the cryptocurrency market are only changing gradually right now.

But it won't always be this way. By the end of this decade, cryptocurrencies will disrupt every area of our lives, just like the internet and smartphones have.

They'll change how we transact online, provision digital resources and protect our digital identities.

Consumers and corporations are rapidly accumulating bitcoin as a store of value.

The number of unique bitcoin digital wallets has grown 160-fold, from 500,000 in 2013 to more than 84 million today.

Even at over 84 million wallets, that's only 1.3% of smartphone users. It's only 1.7% of humans with internet access.

That leaves plenty of room to flourish. It's conceivable that this number could move up another 10X this decade.

But it's not just bitcoin that's growing. Ethereum is also shaking up the world as we know it. In fact, it's poised to disrupt traditional finance, as this year's upgrade will

allow it to handle more transactions per second than payment processors like Visa and Mastercard.

That's why I'm recommending the best platform for investors to move in and out of the crypto markets. It's the indisputable leader in the sector, with an astonishing 108 million accounts.

Even though it's leading the new era of finance, shares are priced at only half the value of traditional brokerages. That's why I see this company tripling in the next three years as cryptocurrencies continue to gain mass adoption.

Techno-Skepticism Is Always Prevalent

Every new technology meets skepticism. For the most part, we're afraid of change.

When we invented the automobile, states passed red flag laws requiring someone to walk in front of the vehicle waving a red flag to warn pedestrians.

It took almost 50 years for the automated elevator to take off. Passengers were fearful of riding in a lift without an elevator operator.

In the '80s, no one ever imagined that every home would own a PC. They cost an arm and a leg, and early versions were primitive at best.

Today, cryptocurrency faces the same skepticism as prior breakthroughs:

1. Criminals use it. (Perhaps. But criminals also use cash, bank accounts, brokerage accounts, etc. So that shouldn't stop its adoption).
2. Hackers steal your coins. (Not as much anymore. Exchanges have greatly improved security.)
3. The market is full of scams and frauds. (They are out there, but so are my spam messages.)
4. Frequent 50% to 90% drawdowns, followed by 10X gains. (It's volatile — but the highs and lows are getting higher.)

My point is: Technological advancements have been dismissed as passing fads in the past.

But investors who held strong through the rough patches witnessed incredible gains in the past few decades.

If you held on, you could have seen Apple gain 81,000% from its low.

If you held on to Amazon, your investment rose 53,000%.

If you missed out on those opportunities, crypto is serving one up for you right now.

It's a brand-new asset class. Bitcoin, the first crypto, has only been around for 14 years, while Ethereum has been around for eight.

We are still very early in the adoption cycle. Just like we couldn't imagine where the internet would take us back in the '90s, I don't think we can fully see now how disruptive crypto will be.

At its core, cryptocurrency helps us keep track of who owns what without the need for a centralized entity, like a bank or government.

This will revolutionize how we keep track of digital items. It has implications for the real world as well.

And today's pick is a powerhouse in the crypto space…

The Leading Crypto

I'll never forget the day I first heard about bitcoin.

It was October 2011. I was walking past Zuccotti Park in Lower Manhattan.

Back then, the park was ground zero for the Occupy Wall Street movement.

If you recall, this was a large group of younger adults sleeping in tents to protest social and economic inequality. For 59 days, they marched the streets of lower Manhattan, blocked traffic and skirmished with the police.

Part of the Occupy Wall Street movement in 2011.

In the aftermath of the financial crisis, people were furious about a lot of things. And rightfully so.

For starters, the nation's "too big to fail" banks like Citigroup and Bank of America had been bailed out with taxpayer money. Yet these institutions still paid billions in bonuses to their top bankers!

At the same time, these banks were foreclosing on millions of Americans.

On that day back in 2011, in the middle of the park, amid a drum circle and a group doing yoga, I spotted a cardboard sign that read: "DONATIONS: SEND BITCOIN HERE."

It was followed by a long string of numbers and letters. I didn't know what that meant at the time. Of course, I now know that was a crypto wallet address.

I went home later that day to do more research. It was fairly new at the time, having been founded by Satoshi Nakamoto just two years before.

And its ultimate purpose? To remove the intermediary from online transactions.

You see, a digital currency wasn't a brand-new idea in 2009. People had been working on it for decades.

But what Nakamoto did was describe the idea of a peer-to-peer network, and remove the middleman by using ledgers — or blockchain. It was an idea that ultimately became bitcoin.

So I started delving even deeper into the idea.

What I discovered about bitcoin made me skeptical.

First, it was too volatile to be a store of value. It moved up and down 50% weekly. Only a true bitcoin maximalist would put a big percent of their net worth in it.

Second, it was also difficult to buy. Back then, the only exchanges were sketchy websites where you had to wire cash — or actually meet someone in person to buy bitcoins.

Once you bought bitcoin, it was difficult to store. Exchanges were being hacked all the time. One big example was the first Mt. Gox attack, where depositors lost 25,000 bitcoins (worth nearly $708 million today).

Last, and most important, one of the main use cases (outside of donating to Occupy Wall Street) was to purchase illicit goods on the dark web.

That meant buying bitcoin created liquidity for the worst criminals on the internet. The last thing anyone wanted to do was to help these operations.

So, as you can see, bitcoin had a bad reputation.

But that didn't last for long.

A few years later, I changed my mind. I bought my first bitcoins in 2013. Since then, the world's largest cryptocurrency has gained nearly 300X.

Profits aside, I believe that bitcoin's advantages outweigh the negatives.

Now, I'm going to highlight why now is the time to add **bitcoin (BTC)** to your portfolio.

5 Reasons I'm Bullish on Bitcoin

My initial worries about bitcoin eventually gave way to optimism.

You see, cryptocurrency has come a long way from 2011.

And right now, there are five big reasons I'm optimistic about the future of bitcoin.

1. **Bitcoin is here to stay.** Twelve years ago, that wasn't the case. But now an entire industry has been built to help you buy and store bitcoins. They're available on most major brokerage platforms. And if you don't want to open a brokerage account, there are 69,000 bitcoin ATMs in the U.S. alone.

2. **Bitcoin can bank the unbanked.** Nearly 1.4 billion people globally don't have access to a bank. That means they store currency in cash and don't have access to the same borrowing and lending practices that have shaped the modern world. Yet, these same people now have mobile phones. And with bitcoin, they now have access to a new decentralized financial system.

3. **It also solves the time and space problem of money.** Globally, the remittance market is estimated to be $54.89 billion for 2023. That includes immigrants looking to move money back to their relatives at home. With bitcoin, anyone, anywhere in the world can now send something of digital value as easily as sending an email or a text message. They no longer need to pay egregious amounts, like the 33.8% that Turkey charges to move money in some countries.

4. **Bitcoin can be a macro stabilizer against government spending.** All governments have the same problem — they spend beyond their means. For politicians, spending money in the short term speeds up the economy and increases their chances of re-election. Citizens of countries that spend beyond their means now have an alternative to their domestic currencies. While we haven't witnessed a currency devaluation event in the U.S., I've met with Argentinians and Venezuelans that protected their wealth by buying bitcoin during times of high inflation.

5. **Last, bitcoin is the ultimate antidote to government control of the money supply.** I'll explain more in a moment how we are likely to see the roll out of central bank digital currencies (CBDCs) over the next few years. I believe that citizens who want to keep their money away from government control will be incentivized to buy bitcoin.

So there you have it: Five reasons I believe now is the perfect time to buy bitcoin.

But there's another big reason I think bitcoin is the right buy right now. And it all comes down to its investors.

Or should I say — devotees?

Bitcoin: The World's First Digital Religion?

I've walked the floors of crypto conferences all around the world for almost a decade now. I've met people from all walks of life and all corners of the earth.

Crypto is different from any other asset class.

It's not just an investment vehicle. It's an idea that unites people. To some — it's the world's first digital religion. If you think about it, bitcoin has all the makings of a religious movement.

First, there's the deified anonymous founder, Satoshi Nakomoto. In 2008, he dropped the bitcoin whitepaper titled: "A Peer-to-Peer Electronic Cash System."

It detailed a way for two parties to transact something of value without the need for a middleman. It discussed the use of a safe, peer-to-peer network that could keep track of owners and verify transactions within that network, using a native cryptocurrency called "bitcoin."

The protocol — or way that the system ran — would reward "miners." These are high-powered computers that secure and validate transactions until all the bitcoins had been paid out.

That should happen sometime in the middle of the next century. The supply is capped at 21 million bitcoins.

The limited supply of bitcoin means that increasing demand should lead to higher prices.

Crucially, however, bitcoin is also an alternative to fiat currency systems — where a country can print as much currency as it needs to pay its bills.

A few months after publishing his whitepaper, Satoshi mined the first bitcoin block. He disappeared shortly after that, and remains anonymous to this day.

But before his disappearance, Satoshi did leave some clues as to why he created bitcoin. Embedded in that first block was this text:

The Times 03/Jan/2009 Chancellor on brink of second bailout for banks.

It's a reference to a Times of London article referencing a second British bailout of its banking system. At the time, the same could be said of the U.S.

Even though most Americans weren't camping out in Zucotti Park with Occupy Wall Street, we were sympathizing with them against the banks.

So, perhaps, Satoshi created bitcoin for purely altruistic reasons — a way to fight back against Big Banks.

After all, Satoshi's wallets currently hold around **980,000 bitcoins**. At current market prices, that's a stake worth over $25 billion! And no one has touched these wallets since the bitcoins were mined.

But apart from Satoshi being a digital messiah — delivering the masses from the greed of centralized finances — why has bitcoin gained so many followers?

One reason is the legendary stories that surround the first cryptocurrency. They've captivated the minds of investors.

These stories range from horrific to unbelievable. Plenty of early bitcoin adopters lost millions simply by forgetting where they stored the private key. Or how about the guy who spent 10,000 bitcoins on a pizza? At today's price, that's a $280 million pie!

There are also bitcoin prophets (and attention seekers) like Michael Saylor, who put his entire company's treasury into bitcoin. John McAfee (famous for creating the antivirus software) once said he would eat a body part if bitcoin didn't hit $500,000.

Another reason for bitcoin's massive following? Its converts often become evangelists themselves (just like a lot of religions!), and they're not afraid to tell you why they'll never sell.

There's also a monetary incentive to become a bitcoin evangelist. If you convince a convert to join the Church of bitcoin, that boosts the price!

I can attest to this religious experience, although I don't consider myself a bitcoin maximalist. Last year, I ventured down to Bitcoin Miami.

What I saw was more of a religious revival than a trade show!

There were musicians with songs about Satoshi, artists that created pop art bitcoin sculptures and most revelers looked like they were going to Comic Con, not an investment symposium.

Remember, religious zealots are capable of crazy things.

In 2016, a Dutch family sold everything they had and put it in bitcoin.

Erik Finman, who had used an initial bitcoin investment to launch his own online company, was offered either $100,000 or 300 bitcoins for his company in 2013. He bet everything on bitcoin again. (This was all before he turned 18, by the way.)

And in 2017, Kingsley Advani did the same. He sold all his world possessions and bet big on bitcoin. (Although, in this case, it worked out.)

I'm sure there are countless more — these are only the ones who went public with their investments!

It didn't matter that prices were down — none of these self-proclaimed bitcoin maximalists were selling.

And that brings me back to the main reason now is the time to add bitcoin to your portfolio…

Financial panic.

The Rise of Central Bank Digital Currencies

Historically, governments have used financial panics to increase centralized power.

Each of these events in the past 110 years was in response to a financial panic:

1. **Federal Reserve Act of 1913:** Six years after the Bank Panic of 1907, this act created the Federal Reserve System and gave it the power to issue currency, set monetary policy, and regulate the banking industry.
2. **Banking Act of 1933** (also known as the Glass-Steagall Act): This government response to the Great Depression separated commercial and investment banking and gave the Federal Reserve more regulatory authority over banks.
3. **Employment Act of 1946:** This act was passed in response to a debt crisis after WW2. It gave the Federal Reserve the dual mandate of promoting price stability and full employment.
4. **Monetary Control Act of 1980:** This act gave the Federal Reserve more power to fight inflation. It now controlled the money supply and required banks to hold reserves with the Fed.
5. **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** In response to the great Financial Crisis, this act gave the Federal Reserve more authority to regulate and supervise financial institutions. It also included provisions for increasing transparency and accountability.
6. **2023 Bank Term Funding Program:** This program offers loans of up to one year in length to banks, savings associations, credit unions and other eligible depository institutions.

All of these acts have one thing in common: The government handed itself more power over the control of the money supply.

And this time will be no different.

Last year, we saw the world's first digital bank run.

Silicon Valley Bank went under in just a few days.

Here's why:

Every bank borrows from short-term depositors in checking and savings accounts, and then uses those deposits to make loans or invest in longer, higher-yielding assets.

By which I mean "safe" assets such as "risk-free" U.S. treasury bonds and government-backed mortgages. Banks are now required to buy these after the passing of Dodd-Frank in 2010. (If you recall, this was a direct response to the great Financial Crisis, where banks brought down the entire monetary system by loading up on risky credit derivatives.)

However, 2022 was an awful year for "safe" assets. As interest rates skyrocketed, the value of existing bonds sank.

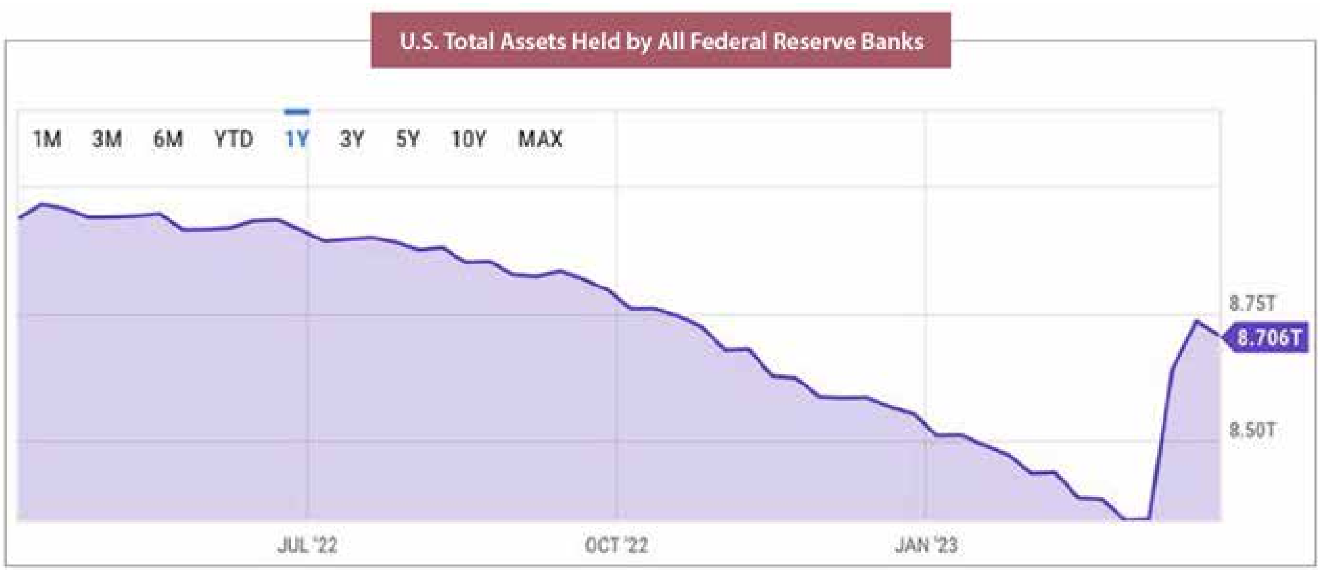
At the end of last year, U.S. banks were sitting on over $600 billion in bond losses.

Silicon Valley Bank was one of them.

The bank's executives tried to get out from under the loss by selling some of its losing positions and raising equity capital. They also aimed to do a better job matching their liabilities (deposits) with their assets (bond holdings).

This didn't go so well. When depositors found out that the bank might be sitting on losses, rumors circulated of more widespread financial issues.

In the digital age, word travels fast. When venture capitalists began telling their startup companies to get out of the bank, Silicon Valley Bank faced a digital bank run.



Unlike bank runs of the past, we didn't see lines of people waiting outside the bank to pull their money. Today, depositors moved billions of dollars with a few taps on an app!

FDIC insurance only covers the first $250,000 in an account when the bank fails. However, over 90% of SVB accounts were larger, so they weren't covered by FDIC insurance.

When regulators realized that depositors could lose tens of billions, they opted to cover their losses.

Bank panics are like a rapidly spreading virus, unfortunately.

Silicon Valley Bank's demise led queasy depositors to start moving their money from other at-risk banks.

Confidence in local and regional banks, especially, is falling apart.

After Silvergate, Silicon Valley and Signature fell, First Republic lost about $70 billion of deposits since the start of the year. Back then, they totaled $176.4 billion.

That's when the Fed and Treasury stepped in with monetary support.

The most recent move by the government sharply reversed the Federal Reserve Balance Sheet in just a few weeks.

But the problem we face now is different from the financial crises of the past.

While history might not repeat itself, it does often rhyme.

Although the government has put out the fire for now, it wouldn't take much to ignite another run on the small banks. It takes only a few minutes for a depositor to open an account at a larger bank and make the move.

And this creates a system where a dollar in a smaller regional bank could effectively be worth less than a dollar at JPMorgan — simply because the bank is viewed as higher risk.

It's very similar to the European debt crisis of 2011, where depositors were trying to get their money out of Portugal, Ireland, Greece and Spain and move it to banks in safer countries like Germany and France.

This is why the digital dollar is so important to the Fed. It wants to ensure that a dollar in one bank is worth the same as a dollar in another bank.

A digital dollar would allow depositors to immediately move them to the "Digital Bank of the Fed."

The Fed can't afford another financial crisis. That's why it's been working on its so-called "Project Hamilton" for years. It wants to control our dollars — and if it has to pretend it's making life easier for us, it will.

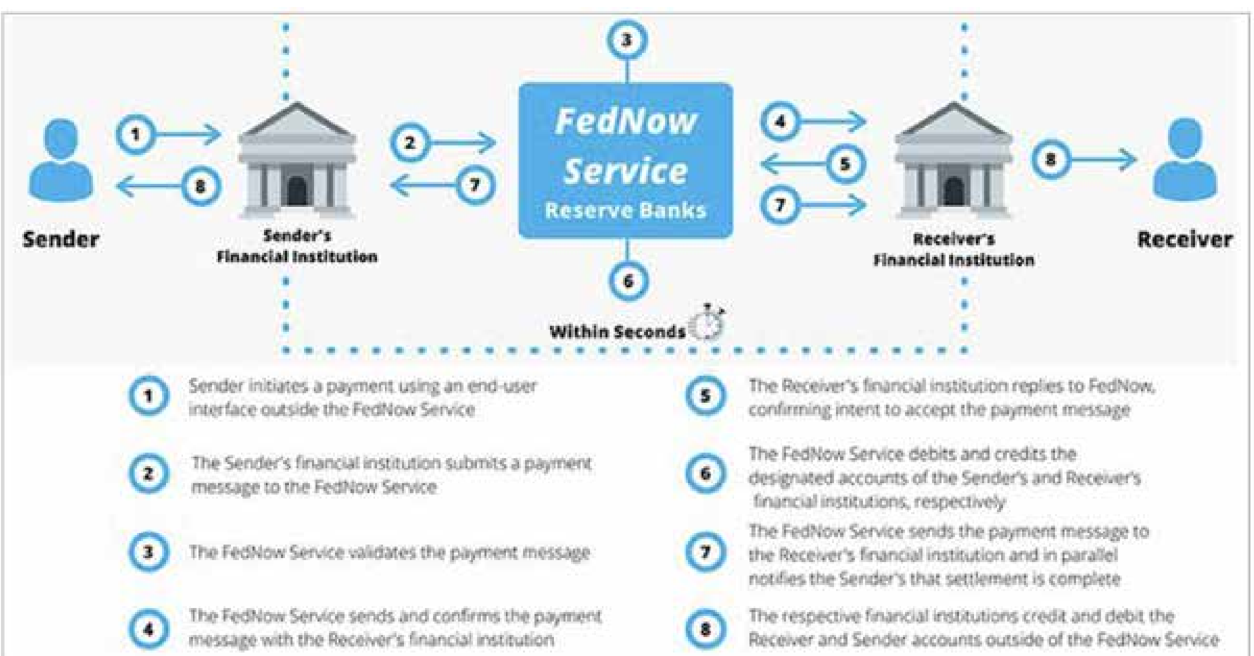
But this time, the central bank's response will ignite the flame that spreads bitcoin ownership around the world.

That's why I believe we are at a tipping point for the **digital dollar.**

The Central Bank Digital Currency Is Here...

The Fed recently launched its FedNow service.

This is the precursor to the U.S. central bank digital currency. FedNow creates a system for government-to-consumer and consumer-to-government payments.



It also allows for person-to-person payments.

If you think that sounds familiar, it should — because that's exactly what bitcoin was created to do. And yet, FedNow is the exact opposite.

While bitcoin transactions are processed by a decentralized network of computers, FedNow transactions will go through the ultimate centralized control mechanism: the Fed's own server.

It gives the Fed control of the creation (and destruction) of money. This will allow it to control who pays whom and who pays what.

Ultimately, the Fed wants a digital dollar because it gives them more power to create money. This will give them the ability to monitor every transaction in the financial system.

You see, for the Fed, a digital dollar solves a big problem. It makes negative interest rates possible.

Imagine having money in a savings account that loses a small percentage every year. It's as if there was an expiration date on your money!

The Fed can't do this now for one big reason: People would take their money out of the banks and store it elsewhere.

But with a digital dollar, negative interest rates are possible.

And the FedNow system is the beginning of this rollout.

It's not just happening in America, either.

Twenty-nine countries have already implemented CBDCs or pilot programs. Among them are China, India, Nigeria, Jamaica, the Bahamas, UAE, Australia, Singapore and Thailand, with **130 more exploring them.**

But we all now have an option to fight back.

For the last decade, cryptocurrencies have grown like crazy. With crypto, we can keep track of who owns what without needing a centralized intermediary, like a bank or a government.

It's so powerful that governments are trying to restrict its ownership by suing the exchanges that allow citizens to buy it. But it's not just crypto that's going to save us from the Big Banks: It's bitcoin.

Here's Why Bitcoin Will Revolutionize The World

I'm already starting to see the seeds of a crypto revolution underway.

You see, bitcoin is not controlled by any governments. (Although most wish they could ban it!)

Its supply is capped, and it's a hedge against excessive monetary printing. It can perform all the functions of money:

1. A store of value.

2. A unit of account.

3. A means of exchange.

And people are catching on to bitcoin as an alternative to the mainstream.

Bitcoin is up 56% year-to-date! As of this writing, over 67 million people own bitcoin in the U.S. and 219 million people globally. That's up 33 million just a year ago!

It's all playing into what I see as backlash against government overreach.

With bitcoin, you can truly interact peer-to-peer — without worrying about a centralized entity running in to take their piece of the pie.
It's the Fed's greatest fear.

That's why crypto has reached its "turning point." I believe it will be the most disruptive force of the decade.

Here's How Bitcoin Meets My 4-Part Strategy

Here's how bitcoin stacks up against my criteria:

#1 — Tipping-point trend. A catalyst that's going to be bigger than people realize. Something that's going to impact all industries, like social networks, smartphones and PCs did.

✅ **Yes.** Bitcoin is in the middle of disrupting our entire financial system. It represents a brand-new asset class brought about by the Information Revolution.

#2 — X-factor. A unique edge that no other company has. It could be something like an auto parts supplier that's the only company manufacturing a vital component for autonomous vehicles. Or an e-commerce company located in the fastest-growing country in the world.

✅ **Yes.** There is a chance that we see hyperbitcoinization this decade. That's the term for the moment when bitcoin becomes the dominant form of money. I believe this is a small chance, but you only need a small amount to not miss out on this moment.

#3 — Momentum. It must have positive technical indicators … these can be assets trading above 20- and 50-day moving averages, a big breakout to the upside or showing strong relative strength. That means it has momentum behind it … and is likely to keep soaring higher.

✅ **Yes.** Bitcoin has positive momentum. It's nearly double the lows of last year and is outperforming stocks in 2023.

#4 — Beat the Street. I want to see a company that is consistently beating Wall Street's earnings estimates. This tells me that "the Street" is underestimating the company's growth potential.

↔️ **N/A.** Bitcoin doesn't have any earnings to analyze here, but the price is catching Wall Street off guard and underinvested.

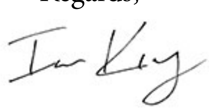
Bitcoin, to some extent, ticks each one of these boxes.

And that's why I recommend you hold at least some bitcoin in your portfolio.

Action to take: Buy bitcoin (BTC).

If you have a stock market or model portfolio question, please email us at **StrategicFortunes@BanyanHill.com**.

Regards,



Ian King
Editor, *Strategic Fortunes*

Banyan Hill
P.O. Box 8378
Delray Beach, FL 33482 USA
USA Toll Free Tel.: (866) 584-4096

Email: http://banyanhill.com/contact-us

Website: www.banyanhill.com