

Bitcoin: A Digital Store of Value

By Fiftysix

What is Bitcoin?

Bitcoin (\$BTC) is a revolutionary digital currency created by an anonymous individual or group known as “Satoshi Nakamoto” in 2009, amidst the global financial crisis. Unlike traditional currencies issued by governments (such as the Dollar, Euro, or Yen), Bitcoin operates on a decentralized network supported by open-source software. Anyone with a digital device, such as a computer or smartphone, can participate in the Bitcoin ecosystem.

One of Bitcoin's defining features is scarcity: the total supply is capped at 21 million Bitcoins. This coded limit contributes to Bitcoin's reputation as a "deflationary currency" – meaning it's designed to stagnate or even decrease in supply over time. Throughout its history, the Bitcoin network has proven resilient to attacks, hacks, or disruptions.

Bitcoin is embraced by many as a foundational piece of the digital currency landscape. Ray Dalio, manager of the world's largest hedge fund, has likened Bitcoin to gold, citing it as a digital alternative within an increasingly technology-driven world. As of February 2024, approximately 50 million people own Bitcoin, a figure that expands to 420 million when considering holders of various cryptocurrencies.

Why does \$BTC fluctuate in price?

Bitcoin's price fluctuates due to technological adoption, advancements within the blockchain ecosystem, and regulatory enforcement. Bitcoin can be used to purchase goods, pay salaries, and hedge foreign currencies. Like Fiat currencies, Bitcoin's value changes within the foreign exchange market.

What is Fiat?

“Fiat money is a type of currency that is not backed by a commodity, such as gold or silver. It is typically designated by the issuing government to be legal tender, and is authorized by government regulation. Since the end of the Bretton Woods system in 1971, the major currencies in the world are fiat money.” - Wikipedia

How rare is Bitcoin?

If there were 8 billion people in the world, and 21,000,000 Bitcoins were equally circulated to each individual, this would mean each person would hold 0.002625 \$BTC, making Bitcoin an extremely scarce asset to hold.

It is currently speculated that almost 4 million Bitcoins have been lost forever, placing the total amount of circulated Bitcoin to be at about 17 million. Using the calculations above, only 0.002125 \$BTC would be globally available.

Innovations that enhance Bitcoin's utility, security, or accessibility tend to increase investor confidence, driving up demand and price. Positive regulatory developments, such as the recent approval of Bitcoin ETFs, can also boost market sentiment and price.

Stringent regulations or government crackdowns can lead to uncertainty and price declines. This relationship between technological progress and the regulatory landscape shapes Bitcoin's market dynamics, leading to price volatility.

Every 4 years, the Bitcoin supply earned by miners halves in amount, known as the halving. This event often positively impacts the price of \$BTC, such as the halving events in 2012, 2016, and 2020.

Conclusion

Bitcoin represents a decentralized approach to currency, powered by a global network of users and open-source technology. With over 50 million owners worldwide and its use by numerous companies and investment funds, Bitcoin serves as both a hedge against inflationary pressures and a bet on the widespread adoption of blockchain technologies. Whether for financial security or speculative investment, Bitcoin offers a unique opportunity for the future of digital transactions.

The Rise and Fall of Bitcoin:

2012	187%
2013	5,870%
2014	-61%
2015	35%
2016	124%
2017	1,338%
2018	-73%
2019	94%
2020	302%
2021	60%
2022	-64%
2023	156%

Source