

The crypto asset market – boom or bust?

Tama Churchouse, co-founder of Stansberry Churchouse Research, is an aficionado of the crypto currency market. It has immense risks, and huge volatility, he warned, but there are also vast opportunities.

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CHURCHOUSE WAS SPEAKING at the Hubbis Independent Wealth Management Forum in Hong Kong on November 16, 2017. When he stepped onto the podium Bitcoin was trading at US\$7000. One month later it stood at \$19343 and two months later it was just under \$14000, somewhat justifying his advice for people to put a tiny portion of their wealth into this market.

“Crypto-currency is somewhat of a misnomer,” Churchouse explained. “The clear majority of the 1200 plus cryptos out there at the moment are not currencies in the way that we would typically consider them as a medium of transferring simple value. There are crypto-



TAMA CHURCHOUSE
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currencies of course, Bitcoin being the highest profile, along with Litecoin and some others.”

Churchouse’s background is in investment banking, having worked on derivatives desk for nearly a decade in Hong Kong. He runs a family office in Hong Kong and also writes a research product called Crypto Capital for a company he co-founded, Stansberry Churchouse Research.

Buying into the protocols

Churchouse told the audience that he considers the more important and more interesting cryptos are the crypto protocols. “If one thinks back to the early 1990s when the internet as it exists today was built, one can note that it was built entirely upon a layer of protocols, HTTP, SMTP, email, TCP/IP, but you could not actually own those protocols. Right now, an entirely new internet built on the blockchain is being constructed. It is very early, but you can actually buy and invest in these protocols.”

And on top of those protocols there are crypto enterprises. “These are decentralised applications, whether it is a gambling application, communication, basically able to build on any blockchain protocol.”

Beware the (numerous) ICOs

Churchouse cautioned the audience about Initial Coin Offerings

(ICOs). There has been an explosion of activity but many are simply going to go wrong, while a huge number are simply scams.”

Churchouse warned on the looming downside on the horizon? “We estimate that at least 90% of cryptos out there will fail and die. There is no regulation, no oversight, the barriers to entry are extremely low there and numerous unsophisticated investor.”

“The hype is worrisome, as so much is without substance,” Churchouse warned. He noted that a listed company in the UK simply changed its name to include a blockchain reference and the stock surged several times in value.

He then referred to Ethereum, calling it the largest decentralised smart protocol, smart application, or smart contract protocol in existence [as of mid-November].

Looking ahead to 2018 he expected to see a lot of institutional money moving into Bitcoin.

“It is still dramatically under-represented. It is extremely difficult to own Bitcoin, even today. There are so many issues in terms of custodianship, legal, and compliance.

Consequently, it is a very slow process to get institutions into cryptos, but as regulations come more into the scene we are going to see more money entering the market, into Bitcoin in particular.”

Churchouse also highlighted the launch of futures trading, for

example, the CME Futures then planned for December. “Yet the volatility is so remarkable, so I would not even want to be trading futures on most of these cryptos.” Nevertheless, more financial instruments to hedge that volatility and better regulatory oversight will encourage greater institutional participation.

Churchouse reported that regulatory moves are taking place, and more are anticipated. “Here in Asia many of the governments are very blockchain friendly and proactive, so that is also going to be a major driver of buying into this space.”

Dipping toes in the crypto waters

Churchouse at the time of his talk was recommending people to take just a small position.

“For the vast majority of the people, 1% or maybe 2% of your portfolio is more than enough and for most people, I would say buy some Bitcoin and stick in the drawer and forget about it, then come back in five years time because it is effectively like buying an option.”

Churchouse added that although then trading at \$7000 [November 16, 2017], he could imagine Bitcoin trading 20 or 30 times higher within five years.

“Take a small position, tuck it away and forget about it,” he concluded. ■

ICO madness...

