

## Despite Elon Musk's Dogecoin Roller Coaster, Cryptocurrency Is No Fad



*(Dreamstime)*

By Marisa Herman | Tuesday, 11 May 2021

Elon Musk's preferred cryptocurrency, dogecoin, is recognizable from its trademark picture of a dog – and that may be a fitting mascot for a new class of traders looking to be this generation's more domesticated "Wolf of Wall Street."

But even wolves get bitten, and new travelers on the cryptocurrency bandwagon were treated this weekend to a harsh lesson in reality, even if its only virtual reality. Musk's joke on "Saturday Night Live" that dogecoin was a "hustle" sent the crypto's value plummeting in minutes. Dogecoin lost more than a third of its price following Musk's mention.

The tumble has led some financial experts to conclude aspects of cryptocurrency are fads, bound to dissipate when entrepreneurs and celebrities inevitably turn their Twitter feeds to the next hot trend.

But as mainstream companies continue to support crypto, and more practical uses are developed for the currency, experts agree the alternative market is not something that can be dismissed.

"Some parts of crypto are clearly a fad," said Doug Schwenk, chairman of Digital Asset Research, which provides data on the cryptocurrency market. "But much of crypto and the technology advancements that underpin it are here to stay."

Business tax expert Toby Mathis, who is a founding partner of Anderson Law Group and current manager of Anderson's Las Vegas office, said he would have called cryptocurrency a fad 5 years ago.

Now?

"I don't think you can get rid of bitcoin, Ethereum, and the other cryptos," he said. "It's nutty when you think about it, but U.S. dollars are nutty."

What was originally created as an alternative to the federal banking system in the aftermath of the 2008 financial crisis has surged in popularity and price as celebrities endorse the "it" asset and investors stock their portfolios with crypto.

There are more than 6,700 different cryptocurrencies traded, according to market research website CoinMarketCap.com. As of last month, the total value of all cryptocurrencies was more than \$2.2 trillion.

And now, those involved in the crypto craze can see just how well their investments are faring in the S&P Dow Jones Indices new S&P Digital Market Indices, which will measure the performance of digital assets listed on recognized open cryptocurrency exchanges.

"Traditional financial markets and digital assets are no longer mutually exclusive markets," Peter Roffman, the global head of innovation and strategy at S&P Dow Jones Indices, said in a statement. "As cryptocurrency becomes more mainstream, investors now have access to reliable and transparent benchmarks backed by institutional quality pricing data. We look forward to further expanding our new family of Digital Market Indices and bringing much needed transparency to this exciting market."

Wall Street also welcomed Coinbase, a leading cryptocurrency exchange platform, to the stock market several weeks ago.

Dmitrii Parilov, the managing director at market data and services provider dxFeed, said the Coinbase listing signals a monumental shift that "the legacy financial industry has officially accepted the seriousness of the hipster-crypto world."

Looking for a way in to Americans' everyday lives, cryptocurrencies and related businesses are making their own investments to gain support and wider traction.

Investment banks such as Morgan Stanley and Goldman Sachs started offering some of their wealthiest clients access to bitcoin, the first cryptocurrency, which was created in 2009 as a peer-to-peer electronic cash system that uses software code to secure transactions instead of a centralized bank or government treasury.

Early investors in bitcoin have seen what may have been a modest sum suddenly skyrocket. On Monday morning, one bitcoin was valued at \$57,350 U.S. dollars – which is one giant leap from a single bitcoin's 2011 value of 30 cents.

"Bitcoin is at the center of the cryptocurrency universe," said American Institute for Economic Research economist Peter Earle. "It's the one most people know. But, there is no guarantee that 5 years from now bitcoin won't be completely forgotten and something else will have taken its place. Right now, there are teams in universities, young people in basements, dorms, and attics hacking away trying to create the next great crypto."

Those with less money to throw around have turned to apps such as Robinhood to secure purchases of partial crypto shares. Venmo, an app that allows direct payments through a mobile device, recently announced it will allow users to buy, sell, and hold cryptocurrencies.

In another sign of the cultural creep, cryptocurrency exchange FTX recently secured the naming rights to the home arena of the NBA's Miami Heat, a deal that cost a reported \$135 million. Meanwhile, Safemoon, a newer cryptocurrency, was on full display Monday in New York City on a Times Square billboard that boasted it was "the world's fastest growing cryptocurrency."

To encourage people to purchase crypto, billionaire entrepreneur and Dallas Mavericks owner Mark Cuban is allowing fans of his NBA team to pay for tickets and merchandise in both bitcoin and dogecoin. For his part, Musk tweeted that his rocket company, SpaceX, will launch "DOGE-1 Mission to the Moon" in the first quarter of 2022, with the entire mission funded by dogecoin. He previously announced he would accept bitcoin from customers purchasing one of his electric Tesla vehicles.

While accepting bitcoin and other cryptos as a form of currency is a very recent move made by some billionaire believers, Earle points out most crypto investors have used it more as a "digital substitute to gold" rather than an everyday currency to pay for goods and services.

Mathis said his clients believe in crypto "for the sole reason that there is no central bank" and there is a finite amount of it.

"There is no Wizard of Oz deciding how much currency is going to be printed," he said. "They like the fact that there is no one person who can tank the value. The government can't decide to print more. They like that there is more certainty."

For instance, only 21 million bitcoins can be "mined" – the process that creates cryptocurrency – and, so far, 18 million have already been mined.

Mathis said millennials and those who lived through the 2008 economic crisis have been among the most eager to jump on board due to a lack of trust in government and the ways which it can manipulate currency – especially during the pandemic.

"As they watch the U.S. dollar get devalued as the [government] creates more, they feel much more secure knowing that they aren't in that same game," he said. "People are voting with their virtual wallets and trusting the virtual world, whether it's good or bad."

Mathis attributes the most recent surge in crypto's popularity to the pandemic, which spurred record spending on economic recovery packages.

Earle noted the surge served as a hedge against inflation for investors operating in the COVID-19 economy. And as more people funneled money into crypto exchanges and the price jumped, "momentum investors" jumped in with the hope of capitalizing on the windfall.

While the average American can't afford the cost of a bitcoin, they can enter the crypto market via "knockoff" options such as the Musk-favored dogecoin, where one share hovered around 50 cents on Monday morning. Dogecoin's market capitalization comes in around \$62 billion, which means it's valued more highly than companies such as Ford or Twitter.

The biggest difference between bitcoin and dogecoin is availability. Dogecoins are continuously being mined, while bitcoin has the finite cap. Dogecoin does have its own limit, though, with an annual inflation of 5 billion coins.

The ability to trade cryptocurrency 24/7 means the price can fluctuate drastically and the market never takes a break. Because they aren't backed by the government and aren't a piece of a company, like a stock, their underlying value constantly changes.

"It's very speculative," Mathis said. "You have to be prepared to lose it."

But though it's popular, because of the uncertainty surrounding crypto, many governments have deemed its use too risky and have moved to prohibit it.

After spending months tightening restrictions on cryptocurrency exchanges, the central bank of Turkey announced a total ban on cryptocurrency payments citing a lack of regulation and a central authority for the coins – which poses a risk to investors who can't recover any losses.

India's lawmakers will soon grapple with determining the fate of cryptocurrency in that country when politicians take up a proposed bill that would outlaw private cryptocurrencies due to concerns about funding illegal activities. The People's Bank of China has already implemented several regulatory measures to crack down on cryptocurrency after going essentially unregulated until 2017.

While the U.S. has so far cautiously embraced digital assets, lawmakers are eyeing ways to regulate it – though, experts say it won't be easy.

"The challenge for regulators will be to find a common ground between anti-money laundering and terrorism financing, and the end game of creating an environment conducive to innovation, transparency and workability," said John Boyd, a finance expert and principal of The Boyd Company, Inc. "Once regulators get more into the weeds, they will find that they all view things differently. The Treasury sees cryptocurrencies as currencies, the CFTC views them as commodities, the SEC sees digital assets like securities, and finally the IRS takes a different view by treating them as property for taxation purposes."

During a recent House Financial Services Committee hearing, Securities and Exchange Commission Chairman Gary Gensler told lawmakers that there are oversight gaps when it comes to trading the cryptocurrency, even though the SEC can regulate digital coins that are considered securities. The SEC has indicated that bitcoin is a commodity under U.S. law, however, it's not subject to the agency's toughest rules.

"There's a lot of authority that the SEC currently has in the securities space and there are a number of cryptocurrencies that fall within that jurisdiction," Gensler said. "But there are some areas, particularly bitcoin trading on large exchanges, that the public is not currently really protected."

Reps. Patrick McHenry, R-N.C., and Stephen Lynch, D-Mass., recently introduced legislation that would create a group of industry experts and representatives from the U.S. Securities and Exchange Commission and Commodity Futures Trading Commission to evaluate the current legal and regulatory framework around digital assets in the U.S.

The proposed "Eliminate Barriers to Innovation Act of 2021," which is also backed by Glenn Thompson, R-Pa., Ted Budd, R-N.C., and Warren Davidson, R-Ohio, seeks to clarify when the SEC has jurisdiction over a particular cryptocurrency and when the CFTC has control.

Generally, the SEC steps in if it is considered a security, while the CFTC has the authority when it is a commodity, but, currently, there are no clear guidelines on when a cryptocurrency is treated as a security or not.

If the group is formed, it would file a report detailing current regulations, the impact they have on primary and secondary markets, cybersecurity issues, fraud prevention, and investor protection.

Rob Zel, founder of bitni.com, a popular crypto exchange that focuses on user privacy, said exchanges operating in the U.S. can be heavily regulated, but banning cryptocurrency would "require turning off the global internet."

"Any gateway between credit cards and bank accounts to cryptocurrency can be strictly regulated, because credit cards and bank accounts are already strictly regulated," he said. "But cryptos themselves are technologically beyond government control without an entire internet kill switch."

Despite lawmakers' years-long complaints about crypto, he said there is "only so much they can do, because much of the technology behind cryptocurrency is impossible to shut down."