UNIT Monash: Week Ten Newsletter

Hey <<First Name>>!

Cryptocurrencies... By now most people have heard of them, but how well do we really understand them?
In this article, we highlight that with any new investment, it is essential to understand the associated risks and rewards.

Check out the week ten newsletter below for the details!

Weekly Info Wrap

Making sense of cryptocurrency

Before getting into the nuts and bolts of cryptocurrency, we must first make sense of what money is. The philosophy behind money is similar to the "which came first: the chicken or the egg?" debate.

Money must have specific attributes for it to be considered valuable:

1. Traders/Merchants must accept it as a form of payment.
2. Plenty of people must have it.
3. Society must trust in its value and that it will remain valuable in the future.

A key change in money has been its ease of transaction. Imagine carrying a gold bar from one country to another back in the early days. Hence, fiat money (otherwise known as 'cash') was introduced to help alleviate this hassle. As time went on and technology advanced, the invention of electronic payment and credit cards arrived. Credit cards may be convenient, but they represent currency that is regulated and controlled by the government. As the world has become more interlinked, cryptocurrencies can offer a valuable solution for international transactions.

<u>Purpose of Cryptocurrency</u>

A cryptocurrency is a new form of digital money that aims to provide solutions to some of the problems faced by our current money system. Issues such as:

1. Removing the intermediaries (banks and brokers) who take a proportion of every transaction causing the process to be slow and expensive
2. Eliminating extreme money printing (when a country prints too much money, its inflation skyrockets and people cannot afford to buy everyday goods and services) - Most cryptocurrencies have a limited supply, and therefore the generation of cryptocurrencies is constrained to a specific threshold amount.
3. Financial inequality
4. Provide financial access and service to three billion unbanked or underbanked people (approx. half of the world's population)

You would keep your common government-based currency reserved in the bank, and would require an ATM or a connection to a bank to transfer it to other people. With cryptocurrencies, the banks and other centralised intermediaries are removed. Instead, **cryptocurrencies rely on a technology called blockchain**, which is decentralised (meaning no single entity is in charge of it). Instead, every computer in that network confirms the transaction.

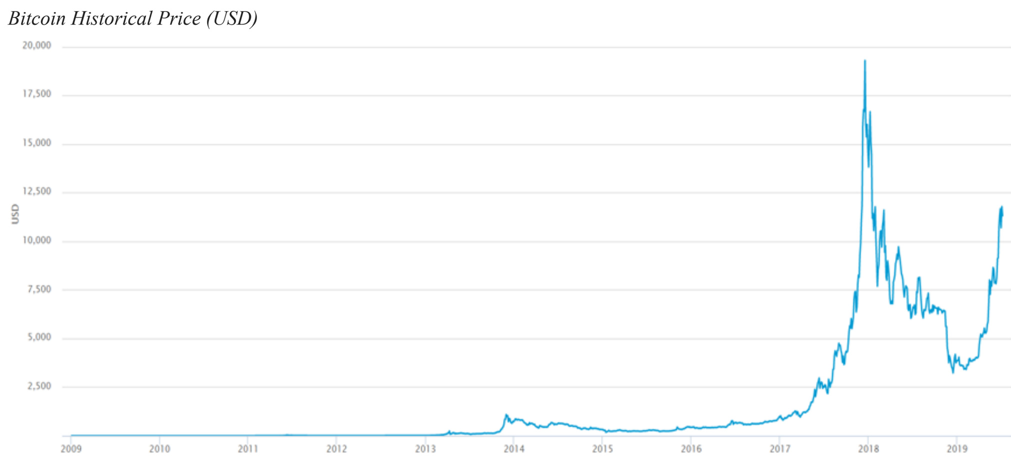
<u>History of Cryptocurrency</u>

In 2008, the first-ever cryptocurrency (developed by an anonymous entity who went by the name of Satoshi Nakamoto) was introduced. Welcome to the world of **Bitcoin**. In the beginning, Bitcoin was worth virtually nothing as no cryptocurrency exchanges or markets were available. Bitcoin was simply exchanged between cryptography fans.

In 2010, the first bitcoin exchange (now-defunct BitcoinMarket.com) started operating, and Bitcoin started trading at a price of USD$0.003. Flash forward many bubbles later; it is currently valued at around USD$8000. This puts its growth at a staggering **266,666,566%** since inception.

From 2011 onwards, enthusiasts started noticing flaws in Bitcoin and created alternative coins (also known as **Altcoins)** to improve on speed, anonymity, security, and more. Currently, there are over 2900 actively traded cryptocurrencies, the most popular of them being **Bitcoin, Ethereum, Ripple, and Litecoin.**

Bitcoin Historical Price (USD)



<u>Risks of Investing in Cryptocurrency</u>

The crypto asset class is still relatively new. Thus, banks and governments have not yet formed a coherent fiscal policy for this technology. For that reason, there is always a risk that their trading rules, outright legality, or even taxation status, could change overnight.

Just like anything else in life, trading cryptocurrencies is not a golden ticket to getting rich quickly and comes with a distinct risk. Two of the essential cryptocurrency risks are **volatility** and **lack of regulation**.

In 2017, volatility got out of hand and sent Bitcoin skyrocketing 1000%, which was followed by a yearlong period of it crashing down.

Lack of regulation allows large players in the market to engage in a 'pump and dump', where the price of a cryptocurrency can be artificially inflated and sold promptly.

It is worth noting that cryptocurrencies have no 'real value' behind them as they do not generate cash flow and are determined by the price the market places on them. There is a considerable amount of coins available today, and there is a tendency for most to overlook the fundamentals of the cryptocurrency and make investment decisions based on the hype.

To find out what prices cryptocurrencies are trading for click here.

Weekly Global Breakdown

Australia

The Australian share market has recovered a few of its losses from the past two days but still ended the week down 3 per cent, its worst week since mid-November. The S&P/ASX200 index finished Friday up 24.1 points, while the broader All Ordinaries was up 25.2 points. However, for the week, the ASX200 was down 199 points.

Every sector except financials was up on Friday, with health care leading with a 2.3 per cent gain. CSL rose 3.2 per cent, accounting for 45 per cent of the ASX's gains for the day. Tech stocks were the second-biggest gainers, collectively up 1.1 per cent. The banking sector, however, dropped 0.1 per cent, with three of the Big Four banks down. ANZ fell 0.5 per cent, NAB declined 0.6 per cent, and Westpac dipped 0.3 per cent, while CBA rose 0.3 per cent. Just a reminder that CBA is a stock to observe carefully. The bank's CommInsure life insurance unit has been charged with 87 counts of unlawfully selling life insurance policies over the phone. The maximum penalty for each of the charges is $21,250, or $1.8 million in total.

The AUD is buying 67.54 US cents, up from 67.05 US cents on Thursday.

United States

Despite the major indices posting considerable recovery on Friday, most benchmarks suffered a decline for a third consecutive week as long-term yields plummet amidst fears of an economic slowdown, both within the US and overseas. Strength in Apple and other tech and IT stocks supported the NASDAQ which managed to post modest gains. The Dow Jones Industrial Average closed the week off 0.9 per cent lower while the S&P500 Index and NASDAQ closed 0.3 per cent lower and 0.5 per cent higher respectively.

The catalyst for this unexpected decline during the week was likely attributed to weak global manufacturing data, with the Institute for Supply Management's manufacturing index falling for the sixth consecutive month, reaching its lowest levels since 2009. Investors seem to be concerned that weakness in manufacturing will spill over to the services sector. However, the indices shook off these declines on Friday with sentiment changing as a result of growing hopes that the Federal Reserve would cut interest rates in reaction to this data to promote further growth. The futures market on Thursday indicated a 90 per cent chance that the Fed would cut rates again at its next meeting at the end of the month.

Asia

BOJ indicated it would buy fewer bonds across four major maturities to steepen the yield curve. This resulted in the auction performing poorly as the government bonds slid across all maturities on Tuesday following the worst demand for a 10-year note sale since 2016. In a negative interest rate environment, local lenders in Japan have increased their exposure to real estate and small-business loans. Japan's regional banks are also making riskier bets that could lead to losses in the next economic downturn. Regional bank holdings of Japanese government bonds declined to roughly 50 per cent of the level of five years ago. Given the signals that risks are rising, Moody's Investors Service recently stated it might downgrade a dozen regional banks as they may not be able to maintain profits without lending to weaker borrowers and investing in more volatile assets.

Mainland stock markets reopen on Tuesday, October 8, after being closed from October 1 – 7 to mark the 70th anniversary of the founding of the People's Republic of China. Trade developments will likely dominate headlines when Chinese stock markets reopen, given the resumption of U.S. trade talks on October 10 and 11. Investors will be on the lookout for news regarding recent reports that the Trump administration is considering restrictions on U.S. investments in Chinese companies and financial markets, such as the delisting of Chinese companies on U.S. securities exchanges. Outside the mainland, Hong Kong's benchmark Hang Seng Index fell for the third straight week to a one-month low on news that the territory's government will use emergency powers to enact a ban on face masks to prevent growing anti-government protests.

Europe

Investors seem pessimistic about the European economic outlook as stocks plummet. The STOXX Europe 600 Index and German DAX Index fell close to 3 per cent while the UK's FTSE 100 Index dropped more than 3.5 per cent. This followed the release of weaker than expected economic data and news of US tariffs on European Union exports.

Similar to the US, fears of an imminent recession rose as the UK and Europe's deteriorating manufacturing sector leaks into the services sector. The UK services purchasing index fell below 50, the point of separation between expansion and contraction. The negative sentiment is understandable as the industry makes up almost 80 per cent of the UK's economy. This may provide further incentive for the Bank of England to cut its interest rate.

To add to the heat, the US announced that it would be placing a 25 per cent tariff on imported products from the European Union. The decision followed the World Trade Organisation's ruling that the US can place $7.5 billion worth of tariffs on EU imports in retaliation to several European governments' aid to Airbus, Boeing's rival. US officials have stated that tariffs will be in place by October 18.

New to markets? Got Questions?

As we mentioned in previous emails - we started UNIT Monash with the vision of educating the student community in investing and trading to one day strive for financial independence.

We want to create a new concept of peer-to-peer communications about investing and trading. There's a lot of value in sharing experiences, having opinions and shedding light on new ideas. Feel free to get in contact with us via Facebook if you have any enquiries about investment, trading or our upcoming events or if you would like to provide any feedback.

Regards,
UNIT Monash

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