

Exchanges Crypto



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Lesson 23

There are many reasons why cryptocurrencies have risen in value and popularity over the years. As described in an earlier lesson, my collaborator, Ryan, learned about cryptocurrencies when he was still in high school, back in 2011. In that era, people didn't know very much about cryptocurrency because it was a new concept. Acquiring the asset was very difficult. People didn't understand the obscure new asset class, or how to acquire it.

Understanding the digital economy, or preparing for success after prison, requires a person to anticipate changes in the world to come. For that reason, in this lesson, we'll offer an overview of how the asset class has matured from the early years. That way, participants may have a better understanding of the digital economy and learn more about how new asset classes will influence their lives in the years ahead.

Early Days (Pre-2012 to 2012)

Peer-to-Peer Transactions: In the earliest days, Bitcoin transactions were primarily peer-to-peer. Enthusiasts and early adopters would exchange fiat currency (for example, the US Dollar) or services directly for Bitcoin, often facilitated by forums and early websites dedicated to the technology.

Bitcoin Faucets: Websites like the Bitcoin Faucet would give away free Bitcoins to users to help spread adoption. This was more of a promotional method than a buying method but contributed to Bitcoin's early circulation.

LocalBitcoins (2012): Launched in 2012, LocalBitcoins allowed for peer-to-peer transactions but with a more structured platform. Users could post listings for buying or selling Bitcoin, negotiate prices, and arrange for payment through various methods, including in-person cash transactions.

Growth of Exchanges and Platforms

Mt. Gox (2010-2014): Although it launched in 2010, Mt. Gox became the dominant Bitcoin exchange by 2012, handling over 70% of all Bitcoin transactions worldwide. It provided a more traditional exchange format where users could deposit fiat currency and trade it for Bitcoin. However, it infamously collapsed in 2014 due to a massive hack. I'd like to make a distinction that the exchange got hacked, not Bitcoin. Think of it as a bank robbery. When someone robs money from a bank, that doesn't mean the value of money changed. It only means that someone stole the money. Someone hacked Mt. Gox, which resulted in them stealing Bitcoin.

Coinbase (2012): Founded in 2012, Coinbase significantly simplified the process of buying Bitcoin, offering a user-friendly platform that appealed to non-technical users. It allowed users to buy Bitcoin directly with bank transfers and credit cards, marking a significant evolution in accessibility.

Bitstamp (2011): As one of the longest-running Bitcoin exchanges, Bitstamp offered an alternative to Mt. Gox and survived its downfall. It provided international users with a platform to trade Bitcoin for fiat currencies securely.

Evolution and Regulation (2013 Onwards)

Increased Regulation: As Bitcoin grew in popularity, regulatory scrutiny increased. Exchanges began implementing more stringent identity verification processes to comply with anti-money laundering (AML) and know your customer (KYC) regulations.

Diversification of Services: Platforms started offering more than just Bitcoin trading, including other cryptocurrencies (altcoins), margin trading, futures, and other financial services.

Decentralized Exchanges (DEXs): In response to centralization and security concerns with traditional exchanges, DEXs began to emerge, allowing for direct peer-to-peer trading without the need for a central authority.

Modern Era

Institutional Adoption: The entry of institutional investors into the cryptocurrency space led to the development of more sophisticated trading platforms, including those offering over-the-counter (OTC) trades for large volume transactions.

Mainstream Services: Services like PayPal and Cash App now allow users to buy, hold, and sell Bitcoin, significantly broadening access to the cryptocurrency.

Security Improvements: Learning from past mishaps, modern exchanges and platforms have significantly improved security measures, including cold storage of assets, multi-factor authentication, and insurance against theft.

Corporate Adoption:

The trend of businesses adding Bitcoin to their balance sheets gained significant attention in the early 2020s, marking a major shift in the cryptocurrency's perception from a speculative asset to a legitimate store of value and investment by mainstream companies. Key figures such as Elon Musk, Jack Dorsey, and Michael Saylor played pivotal roles in this shift. Here's an overview of their contributions and the broader trend:

Michael Saylor and MicroStrategy

MicroStrategy's Initial Purchase (August 2020): The trend arguably started with Michael Saylor's MicroStrategy, a business intelligence firm, announcing in August 2020 that it had purchased 21,454 bitcoins for \$250 million. This move was part of its capital allocation strategy to invest in assets it believed would provide long-term value retention. The decision was groundbreaking and served as a catalyst for other companies to consider Bitcoin as a viable component of their treasury management.

MicroStrategy continued to purchase Bitcoin in subsequent months, amassing one of the largest holdings of the cryptocurrency by any publicly-traded company. In February 2024, when we began writing these lessons, Michael Saylor announced that MicroStrategy had accumulated a total of 193,000 Bitcoins, with an average entry price of less than \$32,000 per coin.

Jack Dorsey and Square (Now Block, Inc.)

Square's Bitcoin Investment (October 2020): Under Jack Dorsey's leadership, Square (now known as Block, Inc.) announced in October 2020 that it had purchased \$50 million worth of Bitcoin, representing approximately 1% of the company's total assets at the end of the second quarter of 2020. Dorsey, a long-time advocate of Bitcoin, cited the cryptocurrency's potential to become a "more ubiquitous currency" in the future as a key reason for the investment.

Beyond the initial investment, Jack Dorsey's Square continued to support Bitcoin through its Cash App platform, allowing users to buy, sell, and transfer Bitcoin, further integrating cryptocurrency into its ecosystem.

Elon Musk and Tesla

Tesla's Bitcoin Purchase (February 2021): Elon Musk's Tesla announced in February 2021 that it had bought \$1.5 billion worth of Bitcoin and planned to accept it as payment for its vehicles. This announcement was significant due to Tesla's high profile and Musk's influence. Though Tesla later suspended vehicle purchases using Bitcoin over environmental concerns, the initial investment underscored the growing acceptance of Bitcoin among mainstream businesses.

Broader Trend and Impact

The actions of MicroStrategy, Tesla, and Square were pivotal in legitimizing Bitcoin as an asset class for corporate treasuries. Their investments demonstrated confidence in Bitcoin's long-term value, prompting a reevaluation of cryptocurrency's role in corporate finance and investment strategies.

Following these high-profile investments:

More Companies Joined: Other companies and institutional investors began exploring Bitcoin investments, further integrating cryptocurrency into the mainstream financial ecosystem.

Diversification and Hedge: Businesses started viewing Bitcoin not just as a potential investment for growth but also as a hedge against inflation and currency devaluation in uncertain economic times.

Speculations and Proposals

El Salvador: The government of El Salvador became the first country to adopt Bitcoin as legal tender in June 2021. The government announced plans to

buy Bitcoin directly and has followed through with several purchases to hold in its treasury. This move is part of a broader strategy to leverage Bitcoin for economic growth, financial inclusion, and to reduce reliance on the US dollar.

These developments have been part of a broader trend towards digital currency adoption and recognition of its potential to provide financial security and diversification.

The journey from 2012 to the present day reflects the maturation of the Bitcoin ecosystem from a niche interest to a globally recognized financial asset. This evolution has been marked by technological advancements, regulatory changes, and the increasing integration of Bitcoin into mainstream financial services.

Investment:

On Tuesday morning, Bitcoin continued to rise after a huge jump yesterday. At 5:21 am, on February 27, 2024, the Coinbase Exchange showed Bitcoin valued at \$57,229.60.

- » Total investment in BTC: \$192,202.76.
- » Total holdings: 4 BTC
- » Total value: \$228,918.40
- » Gain or Loss: \$36,715.64

The value of my holdings surpassed the total amount that I had paid by \$36,715.64 since I began investing in cryptocurrency, on January 31, 2024.

Separately, I purchased 1 ETH. It was valued at \$2,954.74 and Coinbase charged me a fee of \$66.48. My total investment: \$3,021.22. Value of ETH at end of day: \$3,256.45

- » Value of Chainlink (Link): \$19.20
- » Value of Cardano (ADA): \$0.6202
- » Value of Cosmos (ATOM): \$11.00
- » Value of Dogecoin (DOGE): \$.09509
- » Value of Litecoin (LTC) today: \$74.84
- » Value of Monero (XMR) today: \$135.95

- » Value of Polkadot (DOT) today: \$8.07
- » Value of Ripple (XRP) today: \$0.5563
- » Value of Solana (SOL) today: \$109.66
- » Value of Avalanche (AVAX) today: \$39.19

Disclaimer:

For full transparency, I am not an investment advisor. Our nonprofit, Prison Professors, offers these lessons for the singular purpose of helping people learn more about the digital economy. I provide information on my personal investments to show that even a person who served 26 years can participate in the digital economy. I am an investor and a speculator, understanding the risks. No one should invest in any asset class without a strategy and a plan, as shown through our introductory course: Preparing for Success after Prison. Always develop an understanding of investment risks—especially with cryptocurrency.

Critical Thinking Questions:

1. How would you say that investments from MicroStrategy, Tesla, and Square influence the perception of Bitcoin in the broader market and among other potential institutional investors?
2. How do you balance the need for regulation to prevent illegal activities with the foundational principles of privacy and decentralization in the cryptocurrency space?
3. In what ways could an understanding of cryptocurrency facilitate a person's transition into society after prison?

Advocacy Initiative:

Prison Professors encourages the exploration of blockchain technology to create positive social changes, such as improved access to education. We invite you to be a part of our initiative by documenting all that you're learning through our MasterClass on the Digital Economy.

Please share your story and responses through the manner that works best for you:

- » Email: Interns@PrisonProfessorsTalent.com
- » Regular mail: Prison Professors, ☒ Digital Economy Course, 32565 Golden Lantern, Suite B-1026, Dana Point, CA 92629
- » Edovo tablet: Prison Professors, ☒ Digital Economy Course, 32565 Golden Lantern, Suite B-1026, Dana Point, CA 92629