# HOW TO INVEST IN BITCOINS

GET READY FOR THE NEXT PRICE RALLY

coinBR
Blockchain Tech

# INTRODUCTION

One of CoinBR's missions is to disseminate quality information about Bitcoin and to guide responsible investors interested in allocating part of their resources in technology.

The digital Bitcoin currency, since it started to be traded in 2010, showed a profitability well above any other investment, reaching an average of 900% of valuation per year. It is a countercyclical asset with an excellent risk-return ratio that if intelligently allocated will be an important vector of profitability and hedge against more orthodox investments.

As part of the news that will be announced during 2016, we opened our research department with the publication of the translation of the report produced by Adamant Research, a specialist consulting firm led by Tuur Deemester, author of the original version.

The report provides capital allocation suggestions that will enable investors to maximize their results through three different Bitcoin exposure strategies within the speculative asset category.

In the last few years we have been studying this market deeply and we are very pleased to share this report with you. When thinking about Bitcoin, look for CoinBR.

Good reading!

# AS AN INVESTOR, WHY SHOULD I CARE ABOUT BITCOIN?

For the first time since the advent of credit card in the 1960s, we have a technology that radically modernizes money. The digital currency Bitcoin and its compensation net are open source, mobile, peertopeer (P2P), protected by encryption, focusing on privacy and Internet native.

The merging of these technologies allows for an unprecedented level of security and efficiency in the financial world, thus enhancing Bitcoin's potential as a disruptive technology, which could first disrupt and then reinvent all logic of the monetary, financial and banking systems.

To illustrate, these are some of the areas in which Bitcoin technology can compete directly with the existing infrastructure:

- US$ 2 trillion annual electronic payments market
- US$ 1 trillion annual e-commerce market
- US$ 514 billion annual remittance market
- US$ 2.3 trillion hedge fund market
- US$ 7 trillion gold market
- US$ 4.5 trillion short term market
- US$ 16.7 trillion offshore deposit market

Investors of Bitcoin are in the company of illustrious figures of the branch of venture capital (VC) such as Marc Andreessen, Reid Hoffman, Fred Wilson, and PayPal co-founder Peter Thiel, from billionaires such as Jeffrey Skoll (eBay co-founder) and Li Kashing (the richest person in Asia), iconic executives such as Vikram Pandit (Citigroup), Blythe Masters (JPMorgan Chase) and Tom Glocer (Reuters), and more recently from major companies such as Google, Qualcomm, New York Stock Exchange, Nasdaq, USAA and NTT Docomo (Japanese communication company worth $ 75 billion).

In fact, its potential as 'money in the cloud' and 'gold 2.0' has made Bitcoin the fastest growing industry in startup investments around the world. VC's investments are expected to reach more than US$ 900 million in 2015 (double 2014), and Bitcoin's market value has exploded from US$ 1.4 million in 2011 to US$ 4 billion in early 2016.

There are four potential risks associated with Bitcoin:

- a better digital currency emerging and stealing market leadership;
- a error not detected in the system;
- a “hard fork” (when some network nodes upgrade to software that is incompatible with previous versions), causing the Bitcoin payment network to be divided in two;
- an attack sustained by an organization with substantial financial resources (such as a government).

Although a better currency is possible, disruptive protocols such as TCP / IP for the Internet proved to be resilient once adopted by a critical mass of the population, such as Bitcoin when compared to other digital coins, the so-called “altcoins.”

With any software application, unknown errors can destabilize the system, but Bitcoin's open source technology allows anyone to contribute to security standards and improvements to the code.

A hard fork breeds competition between two versions of Bitcoin, and after a period of fear and doubt, finally the value will flow to the version considered most useful by its users.

In addition, an organized attack is possible, but extremely expensive, and there are many defense mechanisms that make the attack difficult to execute.

Finally, given how huge the potential future value of the Bitcoin network is if it is successful, we argue that the risk / return ratio for the bitcoin currency is currently the most favorable of any investment in the world. After thorough research and planning, in which this report is the basis for Bitcoin can be a valuable addition to your portfolio.

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After spending many years on Wall Street and making and losing millions of dollars, I want to tell you this: it was never my thought that made me win a lot of money. It was always my expectation. Understood? My arduous waiting.

- -Jesse Livermore

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# BITCOIN ALLOCATION STRATEGY

Now that we've discussed why Bitcoin is a compelling alternative for investors, the next step is to allocate it within its portfolio.

In order to find out which allocation strategy works best for your individual portfolio, preferences and style, it is important first to understand the hidden risks of traditional investment portfolios, and the importance of a long-term approach.

Within the long term approach, you can consider the pros and cons of entering the market either from gradual investments, concentrated investments or by buying in low sharp movements to reduce the average price.

Let's end this report with three allocation strategies with Bitcoin and a specific example of strategy.

# THE HIDDEN RISKS OF TRADITIONAL PORTFOLIOS

It is important to use Bitcoin as part of a diversified portfolio. It offers a counterbalance to a number of increasing risks that are associated with traditional investment practices. Let's take a brief look at the risks involved with government bonds, stock markets and brokerages and real estate market.

With interest rates at their lowest level in over 1000 years, a portfolio of government bonds offers only the illusion of security these days. Once a government can no longer pay its debts, it will be negligent and the bonds become worthless. Alternatively, if a government can not pay off debts from the collection of taxes, it obliges central banks to buy the debt with new impressions of money the owners of bonds are still paid, but with money in devaluation that will eventually be subject to high inflation, or even hyperinflation.

Stock markets also carry risks, because stock valuations are generally built upon assumptions about future consumption and future availability of credit.

With a population, a banking system, and a government that is highly indebted (even in "hot" countries like China), this situation can change rapidly. In the current situation of unprecedented global quantitative monetary loosening, new impressions of money flow into the financial system through banks, which often use the money then to invest in equity and derivatives markets. This 'hot money' can create bubbles like we're probably seeing in the technology sector of the USA today.

In the current financial system, owning a company's shares directly is a complex process. Generally you have to rely on a broker to hold your certificate, but in professional circles it is widely known that stocks owned by customers are used by the broker as collateral for risky bets in the financial markets (this was at the heart of the MF Global scandal in October Of 2011, in which $ 1.6 billion in customer funds was lost).

Many investors make the mistake of thinking that the real estate market offers them a safe prospect, but history shows that in times of rising interest rates and a subsequent credit squeeze, property prices may fall for several consecutive years, which clearly Is being characterized in the Brazilian economy.

In addition, in serious crises such as 1929 or a hyperinflationary scenario, governments tend to choose the side of most constituencies (mainly tenants, not landlords) and do not hesitate to impose rent controls and other measures that freeze the real estate market.

# THE IMPORTANCE OF THE LONG-TERM STRATEGY

In the ecosystem of Bitcoin, it is essential to keep in mind that volatility is a certainty; it is a phenomenon that investors must learn to digest. A bull market never grows in a straight line, and any successful Bitcoin investor will have to fight through significant retractions to win their results.

"After spending many years on Wall Street and after making and wasting millions of dollars, I want to tell you this: it was never my thought that it made me a lot of money, it was always my wait, you understood, my arduous wait!", Says Jesse Livermore.

Keeping your bitcoins is often the hardest and most important aspect about this investment. It is easy to find stories of who found Bitcoin at first, but who sold very early. There are also several cases of investors who bought during the high of 2013 and made losses the following year, betting on the asset for the short term instead of opting for a long term approach.

But there are success stories too as well: in 2013 a Norwegian man discovered his then-forgotten investment of 5000 BTC. He had spent the equivalent of $ 26.60 in bitcoins in 2009. Today, if he kept all the coins, he should have more than $ 1.1 million.

Faced with the intense volatility of bitcoin, it can be hard to hold onto the chair and resist the temptation to sell the currency - especially as markets sometimes take a little longer to beat previous highs. Revisiting the rationale behind bitcoin's long-term promise can help keep investors optimistic and quiet during the ups and downs of the market. Once you have carefully set the right strategy for you, maintaining a long-term perspective and psychologically preparing yourself for a bad scenario (and even the worst of them) is a reliable way to keep a good perspective and avoid selling.

# GRADUAL PURCHASES X CONCENTRATED CONTRIBUTION

If there is one thing that really marks the bitcoin is its volatility. Since the BTC began trading in 2010, we have seen five major price rallies and so much consolidation periods, in which prices plunged by at least 70% falls.

There is lively discussion among bitcoin investors about entering this market with a one-time concentrated contribution or investing fixed amounts each month, a method known as dollar cost averaging (DCA). Many investment advisors are proponents of the DCA, and sometimes have good results, but research shows that their merit in relation to the concentrated contribution is not consistent.

How you enter the market has less to do with right and wrong and more to your personal preferences as long as you have an accurate view of the long term trend and you be careful not to invest so close to the market price spike. It is best to consider the approach in which you feel comfortable about your financial, family and living situation.

We generally suggest choosing the method that best allows you to maintain investments for the long term. If this means making a single investment and putting your coins in cold storage, then this is your way forward. If you know that you will have problems digesting short-term falls, or if most of your investment resources come from a monthly income, then the dollar cost averaging method might be the most advantageous strategy for you.

# MEDIUM PRICE

"Average price" is the process of buying more assets at a lower price than the one originally obtained in the previous acquisition. This method is generally praised because it takes the average purchase price down but we are passionate about it for another reason: applying this technique before entering the market forces you to decide at what price levels you will buy more, which helps you prepare psychologically for lower prices.

The downside of the averaging method is that if an asset is going to zero (and virtually any asset can see its value reach zero), you increase your losses as you buy more in this fall in price. To mitigate this, if you choose the averaging down investment strategy, it is advisable to decide in advance how much you are willing to invest in that asset in total.

One final aspect to consider is the situation of entering the market before a major rally. If this happens, you will most likely end up buying less of the asset you had originally planned. You can balance that by buying up a certain price and then immediately scheduling a sales order with stoploss below that purchase price. So when the price drops again, you have the resources to go back to your original averaging down strategy.

# SUGGESTIONS FOR ALLOCATION STRATEGY

We believe that a balanced portfolio includes investments in a basket of blockchain technologies (altcoins), with an emphasis on bitcoin. This portfolio can play a role in three distinct strategies: as an insurance policy, as a hedge in a broad speculative portfolio, and as a calculated bet for early retirement. Let's investigate each one below.

## BITCOIN AS INSURANCE: 1-2% OF FINANCIAL WEALTH

First, bitcoin is a fantastic insurance policy against a number of systemic risks inherent in even the most conservative investment portfolios. The modern investor (if he is aware of the fundamental risks in a financial system that is probably the most indebted of all history in the world) is wise to diversify a small percentage of his portfolio, for example from 1% to 2%, in Bitcoin. Reasons for this are:

- Bitcoin has very low counterparty risk: you do not have to trust anyone to guard bitcoins for you and every transaction is validated by a global and decentralized network of bitcoin miners who have virtually no means to interfere.

- If stored properly, bitcoin is practically non-confiscable. It's money in the cloud. You can not only organize your portfolio so that only you have exclusive access to your bitcoins, but also access the global network of bitcoins from anywhere on the planet. It's the ultimate emergency fund: accessible anytime, just for you, from anywhere in the world, anytime.

- Bitcoin offers a financial backup system. If the existing system collapses, or if there is a great deal of fear that this can happen, there are hundreds of cryptocurrencies and programmers who can quickly serve the needs of the public on a large scale. If this happens, the value of your investments in bitcoins will probably increase a lot, which may offset the losses in the traditional portfolio.

## BTC IN A SPECULATIVE PORTFOLIO: 2-5% OF FINANCIAL ASSETS

Doug Casey, author of the Casey International Speculator newsletter, defines the activity of speculating as "capitalizing on politically distorted market distortions." One giant distortion we are facing nowadays is the intervention of central banks, which affects and weakens the financial system in general. A speculative portfolio these days would typically bet on the growth of safe assets that are not tied up in the system, such as precious metals, cash, deflated real estate, market shares with a low price-to-profit ratio and agricultural commodities.

Despite the efforts of their managers, assets in speculative portfolios may still move up and down during a crisis situation. In a deflationary scenario such as 2008, people may panic for sale and start a huge flight to US dollars and the bond market, which are two assets that typically hold a smaller position in a speculative portfolio.

In this case a modest investment in bitcoins (2-5% of the total) can especially shine. In a panic case, it is likely that a small percentage of people will choose bitcoin as a financial haven. Given the small market value of the crypto-coins sector, this could lead to a spectacular increase in the price of bitcoin, offsetting many of the losses earned in the rest of the portfolio.

## EARLY RETIREMENT BETTING: 5-10% OF FINANCIAL ASSETS

As we discussed at the beginning of this report, bitcoin is probably a disruptive technology that could radically transform how properties are transferred around the world. It is possible that with bitcoin we are witnessing the birth of the "Internet of property" that in 10 to 20 years could be used by hundreds of thousands of people. Just as the Internet of Information redefined the structure of information markets, the emergence of a property internet would redefine capital flows, making them safer, more efficient and resulting in great wealth creation in the coming years.

However, certainly not without risk (and only advisable for fairly young investors, given the risk and volatility of this market), we believe it may be wise to aim for an early retirement when investing in blockchain technology. Cooling and with rapid maturation of the ecosystem, bitcoin's risk / return ratio as an asset appears among the best evaluated worldwide.

We believe returns of 100x in 10 years are possible, yet obviously not guaranteed. As an example, if bitcoin reaches a market value equivalent to 10% of the gold market, an investment of $ 10,000 in early 2015 would be worth more than $ 1 million if adjusted for inflation.

Given the high volatility nature of this sector and the non-significant risks (such as loss of currencies, introduction of a new currency that exceeds BTC, or network failures), our advice for investors wishing to take a shot at early retirement is to invest 5 % To 10% of your financial assets in bitcoins (and we suggest investing at least an equivalent amount in another decentralized asset such as gold bullion). Keeping your exposure limited is how you will survive and thrive during the inevitable and violent falls in this bull market.

## EXAMPLE STRATEGY: INVESTING $ 50K IN BITCOIN

First, $ 50,000 is certainly not the right amount of investment for everyone. Study carefully and consider which amount and strategy is right for you depending on your personal profile. To get a clear idea of the strategies we described above, we will use the example of a $ 50,000 investment in the blockchain economy:

- US$ 16,000 is allotted as a one-time investment in bitcoin: apply and forget.

- US$ 15,000 is allocated on a dollar-cost averaging strategy over a period of six months, the be invested in the purchase of bitcoins.

- US$ 15,000 is allocated in bitcoins in an averaging down strategy, providing resources for when the price drops significantly.

- US$ 3,000 is allocated in an altcoin portfolio consisting of 4 to 8 coins. For coins that have grown a lot lately, the budget is invested in tranches over several months.

- US$ 1 thousand invested in new opportunities (startups coins or crowdsourcing assets).

In percentage terms, this will eventually result in approximately the following portfolio: 92% in bitcoins, 6% in altcoins and 2% in new opportunities. Over time, as the ecosystem matures, we can use the resources allocated in bitcoin to reinvest somewhere else in the industry.

# CONCLUSION

Blockchain's technology has something for everyone: it offers an irresistible insurance policy for the conservative investor, an effective hedge in a broad speculative portfolio, and - for investors with appetite for high risk and cyclical investment - a rational strategy To pave the way for financial independence and early retirement.

The entire contents of this report is general advice and does not constitute personal or legal financial advice.

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