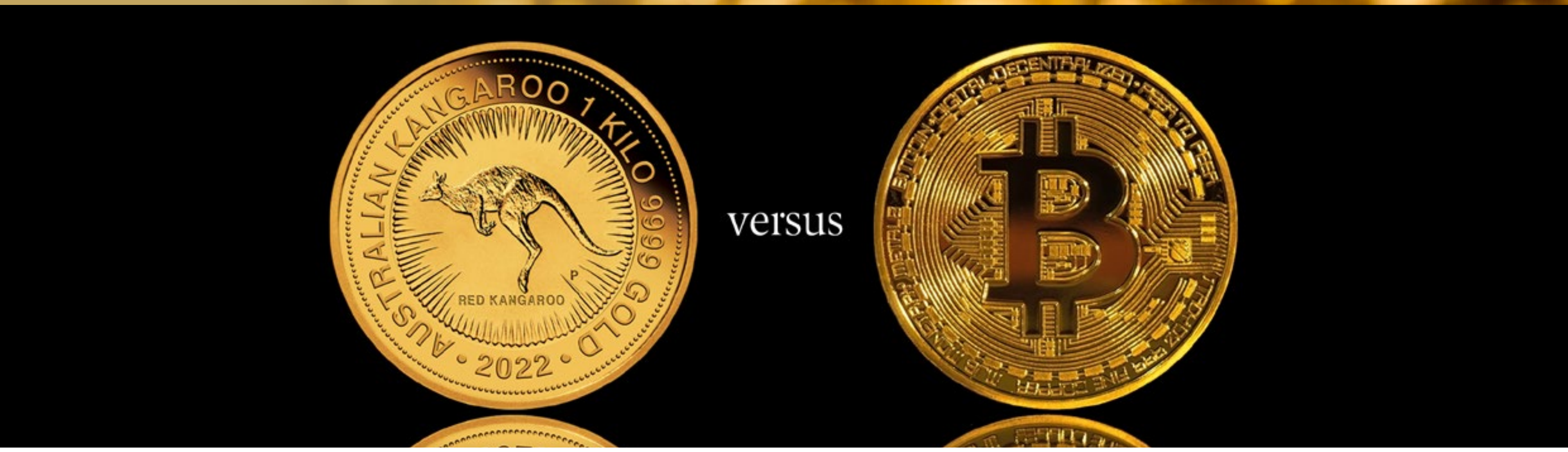
Gold vs Bitcoin?

What you need to know about these two very different asset classes



"Bull markets are born on pessimism and die on euphoria" – John Templeton

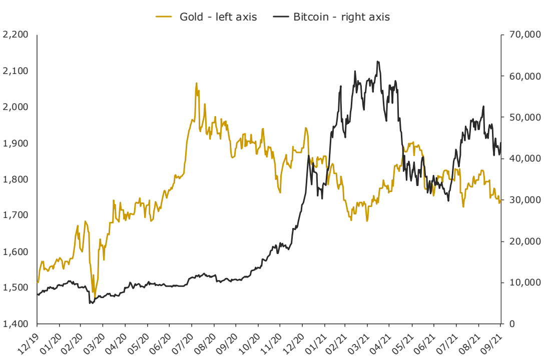
Irrespective of whether you think Bitcoin is a Ponzi scheme, the future of money, or something in between, there is no doubting it is again front-page financial news.

Prices rose to more than USD 60,000 per coin in April, helped in no small part by the news that Tesla invested USD 1.5 billion into the cryptocurrency.

From early March 2020, when it was trading below USD 5,000, the bitcoin price rallied more than 1000%, though it then underwent a major correction, falling more than 50% in the next three months.

Interestingly, the skyrocketing price of bitcoin has more or less coincided with a meaningful pullback in gold (see chart), which had traded at all-time highs above USD 2,000 per troy ounce in August 2020.

Gold and Bitcoin prices December 2019 to September 2021



Source: World Gold Council, Coinmetrics, Yahoo Finance

Given the divergent fortunes of the two assets in the past year, there are now some commentators stating that the precious metal is being usurped by its purported digital counterpart, with some going so far as to encourage investors to drop gold and reallocate to bitcoin instead.

Our detailed research report, *Gold, Bitcoin and the Elon effect*, released earlier this year, questions the wisdom of this narrative, not least because of the multiple bubble warning signs evident in cryptocurrency markets today.

These include the parabolic price move itself, the launch of bitcoin ETFs and planned IPOs of cryptocurrency exchanges, while it is hard to think of a more euphoric moment than the world's richest man using company money to invest in this nascent asset class.

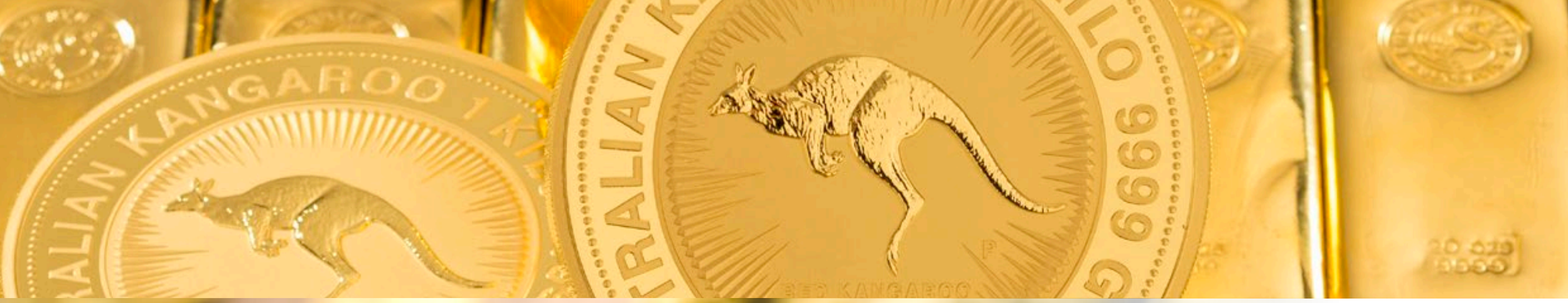
Despite those warnings, we have no strongly held view on where the bitcoin price goes from here, and it must be acknowledged that as a market, it has matured since the last mania seen in 2017. There is now better transparency around liquidity data, enhanced custody solutions, and a range of new product offerings, all of which are helping generate interest from institutional investors.

As such, our report merely aims to highlight the multiple attributes by which investors can, and indeed should, compare gold and bitcoin, which remain two vastly different investments.

With one notable exception, gold would appear to have a handful of advantages that the world's most famous cryptocurrency will never catch.

Here are some key insights to consider:

- Bitcoin beats gold hands down from the perspective of generating speculative returns in rapid fashion, and likely always will. There is a price to pay for this though, with larger drawdowns, and volatility that is 12 times higher than gold.



- The gold market (which includes gold used in jewellery form, industry, ETFs and physical bars and coins) is significantly larger in terms of overall value, with a market capitalization that is more than 10 times the bitcoin market.
- The gold market is substantially more liquid, averaging approximately 90 times the daily turnover of the bitcoin market in 2020, though liquidity in cryptocurrency markets has risen substantially in the past few months.
- Free storage options for gold can be much lower risk than free bitcoin storage options, given the counterparty risk inherent in the latter.
- Gold is a lower cost investment than bitcoin, with gold ETPs like Perth Mint Gold (ASX:PMGOLD) offering gold exposure for 0.15% p.a., versus 1-2% p.a. for existing bitcoin products.
- Gold has a more diverse set of use cases- for investment, as a reverse asset for central banks, as a display (and store) of wealth in jewellery form, and in industry. Bitcoin on the other hand is almost exclusively used for speculation, with payment volumes across the cryptocurrency network declining in the last three years.
- Gold has a multi-millennia track record as a store of value and has been the best performing asset in equity market corrections over the past 50 years. In contrast, it is far too early to say that Bitcoin is a store of wealth. This is no fault of bitcoin per se, rather an acknowledgment that it has only existed in an era of low inflation, economic expansion (up until COVID-19), and a record bull market run in equities.
- The beneficial role that physical gold can play in a portfolio is clear, given its low overall correlation to financial assets, its traditional outperformance in risk-off environments, its high liquidity and the fact it has not credit risk. By comparison, despite the recent surge in the price, there seems little compelling reason for institutional investors and large corporations to include bitcoin in diversified portfolios or on company balance sheets.
- Gold's network effect is far stronger than bitcoin's, best evidenced by the perpetual marketing of bitcoin itself as digital gold. Gold is not marketed as analogue bitcoin!
- Bitcoin remains under threat, both from hard forks and corruptions of the bitcoin network itself, as well as thousands of other cryptocurrencies. Gold on the other hand remains globally recognised as a store of wealth, a status that has been built over thousands of years and remains rock solid (pun intended) today.
- The gold market is far more decentralized, with the precious metal mined, refined, and owned by central banks, households and investors the world over. Bitcoin on the other hand is predominately held by a small group of owners, while mining is overwhelmingly concentrated in one country.

Given the above factors, the precious metal will still likely be the preferred investment option for risk conscious investors looking to protect capital in the years ahead.

The full report can be accessed *here*

This report has been compiled by The Perth Mint.

The Perth Mint is the trading name of Gold Corporation, an entity wholly owned and guaranteed by the Government of Western Australia which holds a long-term AA+ credit rating (S&P). The Perth Mint is Australia's largest fully integrated refining, minting and depository enterprise.

For further information on our depository services, contact:

Telephone: +61 8 9421 7250
Email: *depository@perthmint.com*
Web: *perthmint.com*