THE CRYPTOCURRECY PHENOMENON

WHAT IS IT?

Cryptocurrency is a digital currency used to buy goods and services through a decentralized network based on blockchain technology. Individual coin ownership records are stored in a ledger administered by a computerized database using cryptography to secure transaction records through a network of computers. A defining feature is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation.

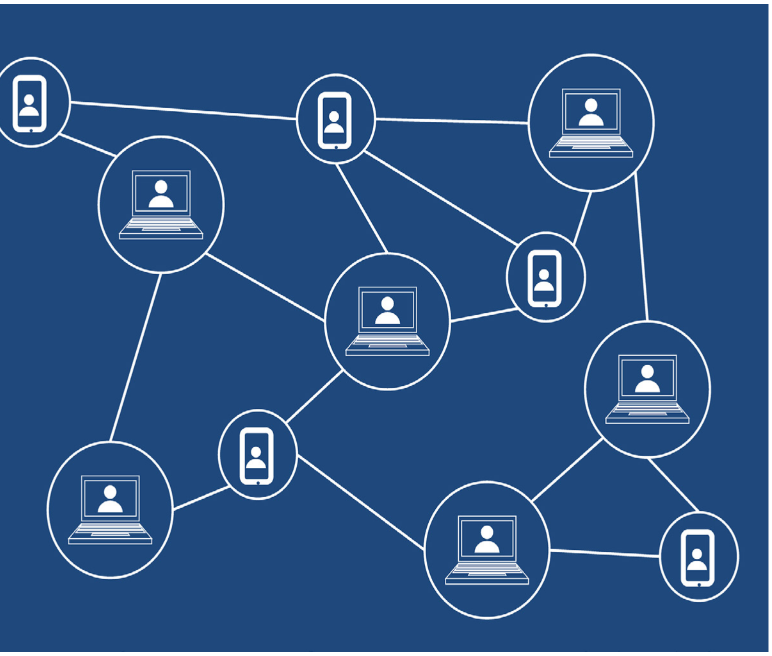
Advocates argue the advantages of cryptocurrency are:

1. it is not controlled by any government's central bank

2. a global virtual currency facilitates global commercial transactions

3. every Bitcoin transaction is recorded in a public ledger known as "blockchain"

4. the payer and payee are anonymous, though recorded transactions are visible to anyone



Bitcoin for example, is not a company but instead a peer-to-peer virtual computer-based electronic currency system. Unlike physical currency or coins, Bitcoin is created by "mining" — using complex software to solve complicated mathematical computations. Most users acquire bitcoins either by buying with physical currencies such as dollars or accepting it as payment for goods and services.

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WILD WEST OF CRYPTOCURRENCY

All cryptocurrencies are currently unregulated assets and trade globally through various exchanges or in direct transactions between private parties. **The largest issue is the fact that they are unregulated and are not backed by a government or any physical asset such as gold.** Major exchanges are located around the world, and the decentralized nature of the system makes it more challenging for government regulators to oversee. Unlike accounts at FDIC-insured banks, there is no protection for possible loss.

The Internal Revenue Service treats holdings as property rather than as a currency for tax purposes. Meaning the sale or exchange of the currency that has gained in value since acquired could potentially trigger a taxable event. Also, payments made are subject to the same information reporting requirements as any other payments made in property. Wages paid via cryptocurrency must be reported on a W-2 form and are taxable as income.

WHAT DOES THE FUTURE HOLD?

Our team believes it is highly likely government regulation will be changing soon. The questions on our mind is what will that regulation look like? How prohibitive will it be? What affect will it have on the perceived value of these assets? Nobody really knows the answer to those questions yet and until regulation is proposed and passed, one can only speculate.

Our view is that when the eventual regulation is proposed, it will largely be so the government can tax the asset more effectively. As stated, the US currently already requires cryptocurrency transactions to be reported on your tax return just like selling a stock, but many people do not report it on their taxes because the IRS has no record of it and cannot oversee it.

If regulations are enacted, we feel they will likely be less restrictive versus what current market assumptions are pricing in. If a lower level of regulation occurs, prices may go higher because regulation was less restrictive then what was originally perceived. If the regulations are farther reaching than what is anticipated, the price would likely drop accordingly.

Another issue with cryptocurrency is that **large organizations, like foreign governments, could manipulate the price if they owned enough of it.** There is speculation the large price drop for Bitcoin in 2018 was due to North Korea dumping all their holdings at once so the price would crater, giving them an opportunity to buy back at a significantly cheaper price. Whether it was North Korea, a large hedge fund or a different sovereign wealth fund, the fact remains that it could happen again.

We believe all cryptocurrencies carry varying levels of risk but all of them are currently "high" to "extreme" and **investors should be willing to invest only what they can afford to lose.** Investors should also understand that without risk, there is no reward. The recent adoption specifically of Bitcoin by several very large corporations and banks makes the likelihood that it will survive regulation issues high. This may not be the case for lesser-known coins such as Doge.

Virtual currencies still face a lot of challenges. If you are considering exploring cryptocurrencies, either for transactions or as a speculative investment, you should make sure you understand the risks associated with it. Investors should also be prepared for dramatic price swings and only use money that you are not relying on. If you would like to discuss cryptocurrency in greater detail, call us today at (877)-739-6007.

Capstone Wealth Advisors has six offices throughout the Pacific Northwest, utilizing a team approach to provide continuity for your asset planning needs. Our investment committee meets weekly to discuss current economic events, market trends, asset allocations and more. By using a disciplined and methodical approach to investing, we remove the noise and emotion from your investment portfolio and allow you to focus on the things you love and enjoy most.