



Lecture 08 — Addressing common misconceptions of Bitcoin

Transcript

Addressing the common misconceptions of Bitcoin.

One misconception is that bitcoin has no intrinsic value. While Bitcoin might not be backed by a physical asset like gold, neither is the US dollar or virtually any other modern fiat currency. As mentioned before, most fiat currencies derive their value from a centralized authority and its supply and demand. Unlike the USD or other fiat currencies, bitcoin is fully decentralized, scarce, and mathematically verifiable. Due to its limited supply, functionality, and network effects, it has established a robust belief system around the world. The more people that use bitcoin, the more people it attracts. And because its supply is completely inelastic, this self-reinforcing virtuous network effect should make it more and more valuable over time.

Another misconception is that a better cryptocurrency could come along, which would decrease the value of bitcoin. Through a combination of first-mover advantage and smart design, Bitcoin's network effect of security and user adoption is very hard for other cryptocurrencies to catch up with at this point. Bitcoin's dominance is currently around 48% of the cryptocurrency market, and much higher if you remove stablecoins and low-liquidity coins from the calculation, despite a full decade of alternative coin launches. That being said, Bitcoin is a young technology and other digital assets, like infrastructure tokens could gain more market share in the future.

Another misconception is that Bitcoin mining consumes too much energy. Bitcoin mining's competitive nature makes it an energy-intensive process at scale. But determining the environmental impact is hard. For one, all aspects of the digital economy require energy. Already a significant portion of bitcoin mining is powered by renewable energy sources, or energy surplus. Bitcoin mining will gravitate towards the cheapest form of energy, which is increasingly renewable energy.

And lastly, Bitcoin's energy consumption is undeniable, but critical in preserving the security of the network. Bitcoin's environmental footprint currently remains relatively small. As of 2022, electricity generation powering bitcoin mining is estimated to be responsible for 0.1% of world greenhouse gas emissions.

We also hear that Bitcoin is too volatile. The inelasticity of Bitcoin's supply is one of the network's most prominent features, and it also contributes to the volatility of bitcoin's

exchange rate. However, as more and more people have used Bitcoin over the years, its exchange rate volatility has consistently declined. That being said, it is important to state that bitcoin remains a risky growth asset, but that doesn't mean it shouldn't be included in your portfolio. The common way to deal with volatile assets in a portfolio is with proper position sizing.

We don't hear it often, but some people ask if Bitcoin is secure. Since BTC has had any exchangeable value, the Bitcoin network has never been hacked. Bitcoin's core protocol has functioned securely with 99.9% uptime since its creation in 2009.¹ A vast amount of computing power secures the network. The miners that power the network are distributed throughout the world and while some mining pools control between 20 and 30% of the hash rate, Bitcoin is unlikely to suffer from a so-called 51% attack due to the prohibitive cost of acquiring that much hashing power. But even in the case of a successful 51% attack, a malicious actor can only disrupt the chain or attempt double-spend attacks with new transactions, but they cannot seize bitcoin from existing wallets.

¹ [Bitcoinuptime.org](https://bitcoinuptime.org)