

# market notes: Silver to Bitcoin's Gold

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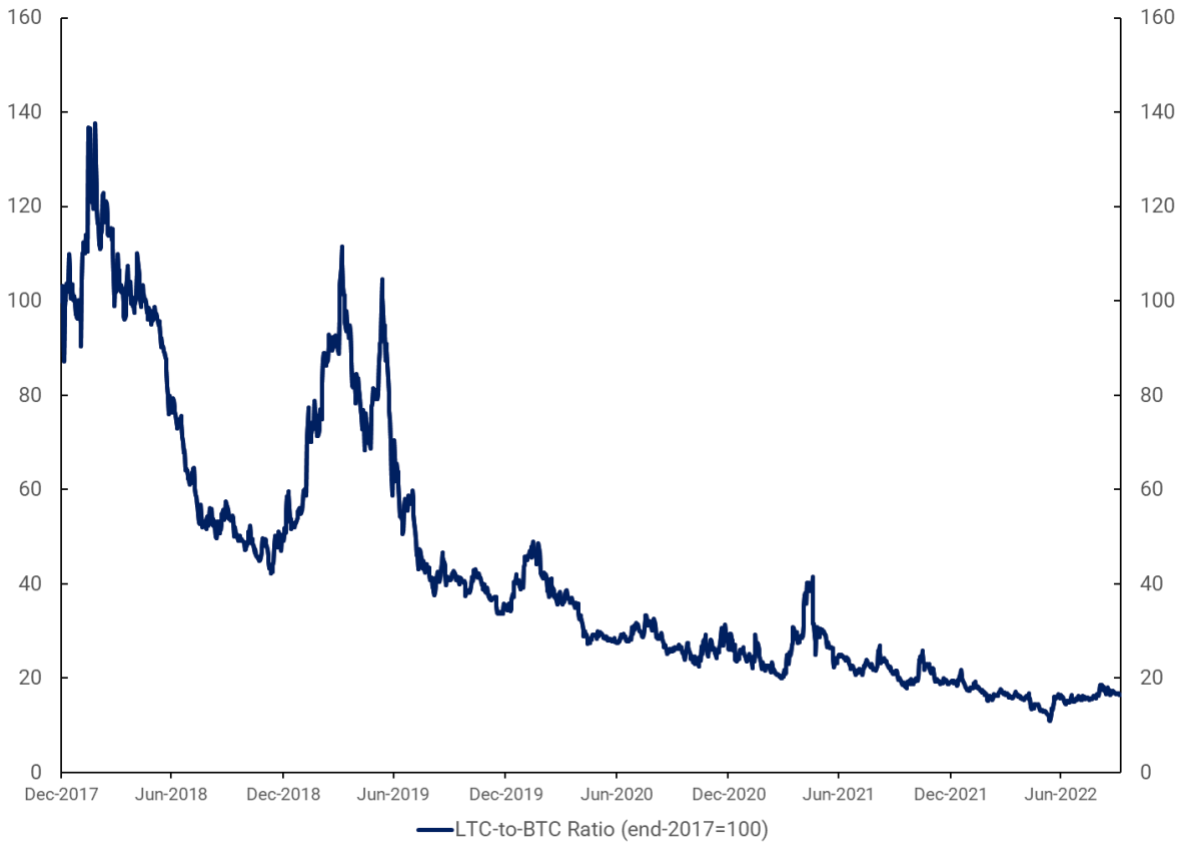
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**10/7/22 - Marcel Kasumovich, Deputy CIO, Coinbase Asset Management**

1. History matters. If you don’t like history, you are a leaf that doesn’t know it is part of a tree. Digital asset markets are both a source of rapid innovation and a step backward in time. Peer-to-peer transactions were a norm but failed to scale with modern economies. Credit was often a conduit for scale, even for simple payments. Now, innovation in payments aims to remove counterparty risk without any loss of scale. Leading payment service providers, such as [Block Inc.](#), are scaling through the Lightning Network.
2. The history of money includes the “Free Silver” [movement](#), a source of bitter controversy in 1896. Class struggles were severe, and an inflation impulse was advocated to alleviate the pressures on the lower class. Unlimited silver coinage was the proposed tool, a marked deviation from the strict gold standard of the time. Over a hundred years later, Charlie Lee modified Bitcoin’s code to develop the “Silver to Bitcoin’s Gold” – Litecoin. While Bitcoin cements its digital gold position, Litecoin’s claim holds feeble. Or does it?
3. Like silver in bimetallism, Litecoin was built to increase velocity. For years it has established itself as a stable alternative to Bitcoin – faster block generation time, cheaper fees, and greater supply. As a store of value, it boasts strong network security and stability with 100% uptime in its 11 years of existence. Though consistently ranked among the top digital assets, it is a far cry from the expectations of both founders and the community.
4. Litecoin has intentionally kept its focus on payments. The increase in competition has driven Litecoin down in the pecking order due to competitor advancements. Social engagements are poor relative to peers, the Litecoin price is down 87% from its highs, and Litecoin’s ratio to Bitcoin is at its lows (Figure 1). Yet, on-chain data indicates that Litecoin ranks only behind Bitcoin in active addresses amongst non-smart-contract platforms (Figure 2). The diverging statistics beckon a revisit to Litecoin’s position in the ecosystem.
5. Bitcoin’s conservative consensus model makes it very difficult for developers to test upgrades. Litecoin has successfully filled this gap over the years, becoming increasingly instrumental in implementing [SegWit](#) on the Bitcoin network. Even more impressive is that the Lightning Network, which many tout as Bitcoin’s payment future, [originated](#) from Litecoin. This was made possible by Litecoin’s common code structure to Bitcoin and lower congestion on its network. If it works on Litecoin, it can work on Bitcoin.

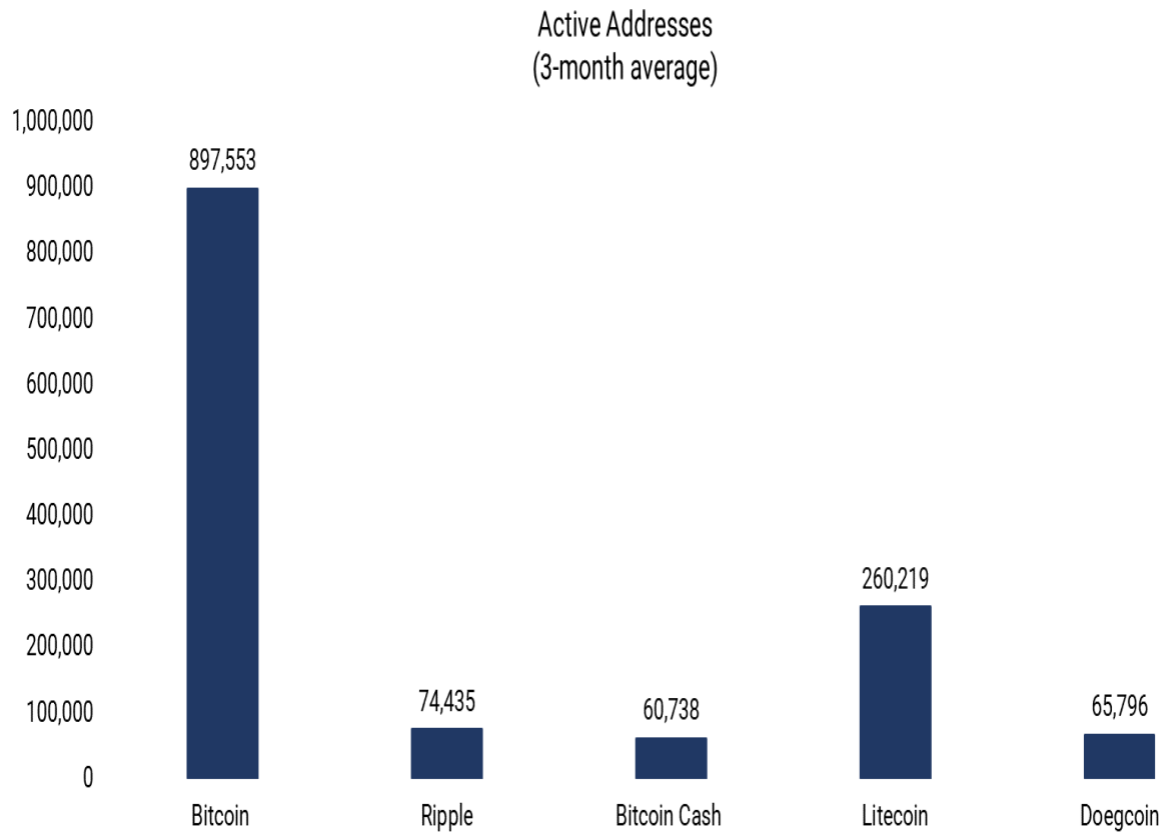
6. Does the Lightning Network make Litecoin redundant? No. On the contrary, it demonstrates the value proposition of Litecoin. As the Lightning Network advances in adoption and utilization, the symbiosis between Bitcoin and Litecoin becomes more pronounced. The advent of [Atomic Swaps](#) allows Bitcoin and Litecoin to be swapped instantaneously with minimal fees. Users can initiate a Lightning transaction on the Litecoin Lightning channel at peak congestion and in an instant swap to Bitcoin during calmer hours. The interoperability between these assets allows users to optimize operational costs.
7. Today, users employ Litecoin alongside Bitcoin for its better throughput and cheaper fees. Its acceptance worldwide continues to increase as a preferred means of retail payment. Globally, about [24,000](#) Litecoin ATM locations exist. Amid a bear market, Litecoin is the [second](#) most-used cryptocurrency on Bitpay, one of the largest payment companies in the world. If serving the purpose of a payment mechanism was the test, Litecoin is performing well.
8. Litecoin has proved durable, secure, divisible, portable, acceptable, and limited in supply. All qualities of sound money. But sound money is also fungible. It is interchangeable. Litecoin's MumbleWimble Extension Blocks (MWEB) [activation](#) provides a testing ground for regulatory friction. This upgrade means that users can maintain anonymity. Privacy versus anonymity is an increasingly important distinction for regulators. A few exchanges have already barred transactions utilizing MWEB, but Litecoin remains listed amongst all major exchanges as this feature is optional, recognizing its potential controversy.
9. If Litecoin becomes digital silver, history also reminds us of Gresham's law. Bad money drives out good as monies with higher intrinsic value are hoarded. In the digital ecosystem, Bitcoin becomes the higher-value collateral asset, and Litecoin is the higher-velocity, every day-use asset, even with a competing Lightning Network. Today we are seeing this on a small scale. Litecoin is complementary to Bitcoin, more than silver ever was to gold.
10. There is a limitation to the bimetallism analogy – silver and gold are well-defined whereas Litecoin and Bitcoin are evolving. The digital ecosystem is more of a living organism, adjusting to its surroundings and needs. The asset price downturn has culled unhealthy components of the ecosystem, drawing more focus to survivors, including Litecoin. Litecoin has the potential to punch well above its weight – a 0.6% weight in our Core Index and 3.9% in our Size-Tilt Index – serving as a testing ground for payments and relief for periods of congestion.

**Figure 1: Litecoin Useful, But Weaker Trend to Bitcoin**



Source: Coin Metrics. One River Digital Calculations.

Figure 2: Litecoin Strong Active Address Count



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