

March 2014

Dear Clients and Friends:

Have you heard of “bitcoin”? It’s an invention of the digital age, a currency that exists only in the realm of computers. Some vendors on the internet treat bitcoins as an acceptable method of payment, which the IRS can’t be happy about. I just checked, and there’s no line on the Form 1040 for “bitcoins received.”

Regular money is issued by a central bank, like the Federal Reserve, which can print more or less money as needed. In contrast, there will never be more than 21 million bitcoins. Think of them as coins which are buried and have to be mined. The way you “dig up” bitcoins is your computer has to solve a complicated mathematical problem, and if it does, the equivalent of finding a needle in a haystack, you get a reward of 25 newly generated bitcoins. The problems are getting harder, slowing the mining process. At the current rate of production, the last bitcoin will be nabbed in the year 2040.

The bitcoin exchange rate on Mt. Gox has been all over the map. It might be \$800 today and drop to \$600 tomorrow. Oh, you’re wondering if Mt. Gox is somewhere in Middle Earth? No, it’s a real website where people can exchange bitcoins for goods or services. There’s also the deep web, accessed through a software called “Tor,” where you can hide your identity and trade bitcoins for illegal drugs or other contraband. Search engines like Google and Bing can’t find the deep web, which is off the grid. That’s why intelligence agents -- and bitcoin miners -- use Tor to see the whole range of websites, like the infamous Silk Road black market site, that are invisible to you and me.

If this all sounds a bit bizarre, consider that the Royal Canadian Mint will be rolling out its own digital currency, the MintChip. Your mobile phone will be able to pay for items at a cash register, or you can send money with a text message or an email. There will soon be a number of digital currencies to choose from, and as weird as bitcoin may seem, it gets credit for proving the concept.

Regards,



Charles M. Shackelford