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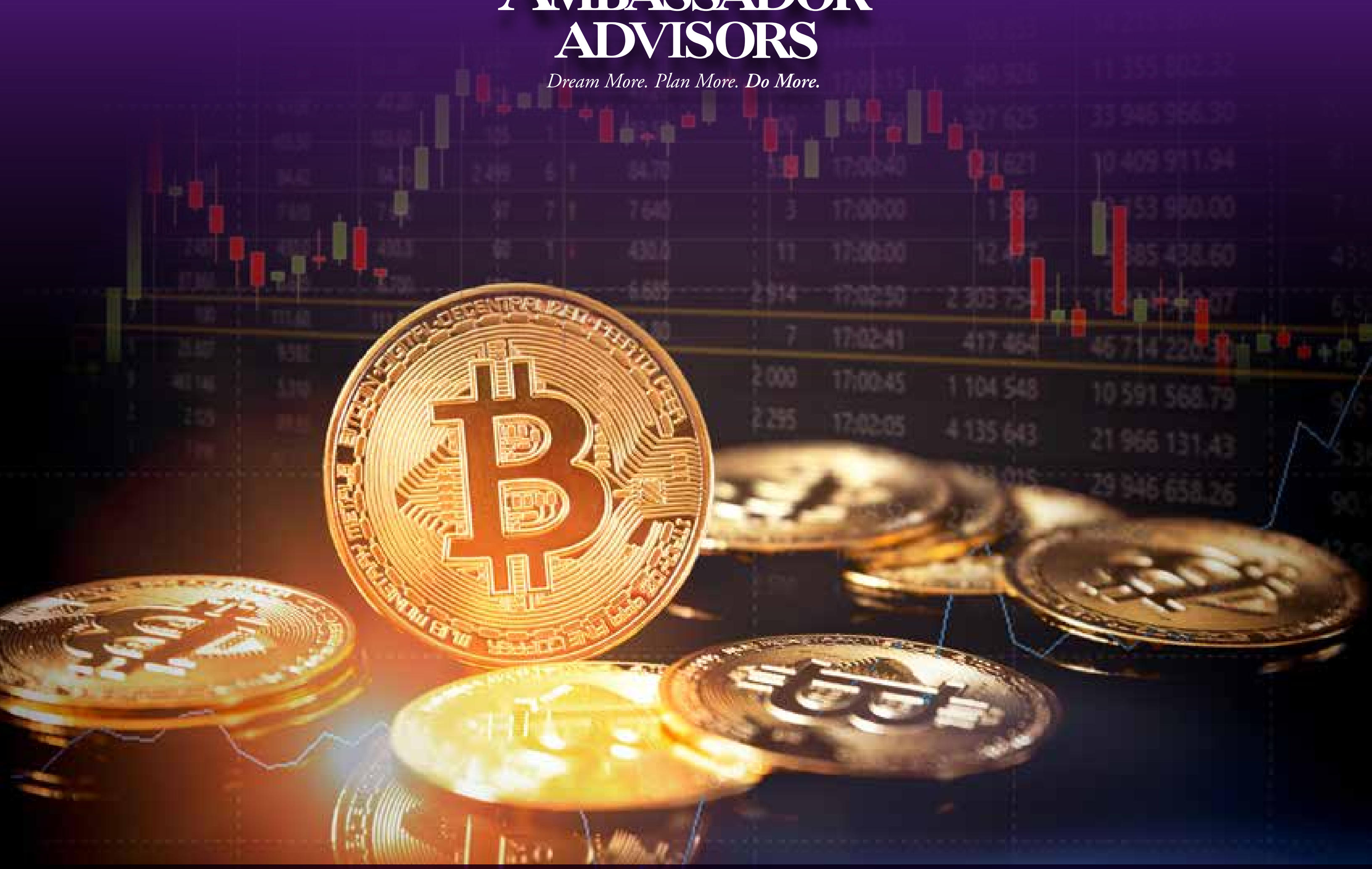

Understanding Cryptocurrency

A Guide to the Risk and Opportunity of Digital Money

What is cryptocurrency?

In late 2009, the financial world was revolutionized with the invention of Bitcoin, the first successful cryptocurrency. Bitcoin and other "crypto assets" use an intricate transaction processing system invented by Satoshi Nakamoto called blockchain. It utilizes a huge network of computing systems that keep records of who owns Bitcoin and how much each person owns. These computing systems, referred to as "Bitcoin miners" provide the computing power to process large "blocks" of transactions, and these miners are incentivized with Bitcoin to share their computing power. Miners compete by processing difficult math problems to earn the right to process the next block, and the first computers to solve it are awarded the block and are given a specified amount of Bitcoin. Every computer in Bitcoin's network holds the entire database and log of transactions, which is being updated constantly across all the systems. The resulting "decentralized network" is one that is incredibly secure. In fact, there has only been one major security flaw found and exploited in the two decades Bitcoin has been around. Although other cryptocurrencies exist, Bitcoin has consistently led the pack, and makes up a vast majority of the cryptocurrency market.

How do cryptocurrencies work?

The main benefit of cryptocurrencies is the fact that they offer a digital store of value. Prior to the invention of blockchain, there was no way to certify ownership of digital assets. The Bitcoin network keeps a secure log of everybody who owns Bitcoin, and the database can only be accessed with a unique pin that identifies an individual as a Bitcoin owner. Often, cryptocurrencies are referred to as "digital gold," and this is a great comparison. Cryptocurrencies generally do not have much correlation with financial markets, so they could potentially serve as a hedge for inflation in the future, and offer a potential option to diversify portfolios. Once 21 million Bitcoin are mined, creation will cease, so, much like gold, there is limited supply, which is where its value comes from.

Bitcoin is called a "cryptocurrency" in reference to the fact that the secure blockchain network provides completely anonymous transactions. Inside the database, outside sources have no way of determining the identities of the parties involved in a transaction. This is achieved by using two separate identification keys. The first is a "public key" that the database uses to ensure the Bitcoin transactions are routed to the correct owners. The second key, as mentioned before, is a private pin that a Bitcoin owner uses to access their holdings and enter transactions. It is computationally impossible to derive the private key from the public, which makes transactions incredibly secure.

If stores don't accept Bitcoin, why is it called a currency?

Bitcoin and the others like it have only been around for a few decades. Although it has made great strides towards being integrated in the financial and economic world, blockchain is still in its infancy. Because of this, the value of crypto assets is extremely volatile, and price swings of 50% and more are not uncommon. This extreme volatility makes it extraordinarily difficult to accept Bitcoin as payment for small, frequent transactions. The price in Bitcoins of something as simple as a gallon of milk could change drastically within the same 24-hour period!

Should I invest in Bitcoin?

Recently, several cryptocurrencies have made headlines because of general uncertainty throughout the world. There are stories of companies putting their assets into Bitcoin as investments and methods of storing uninvested cash, as well as stories of people making huge returns on investments in Bitcoin. With all of this, it could be very tempting to buy some because you are afraid of missing out. However, it should be stressed that the price of Bitcoin is extremely volatile, and the price fluctuates drastically. Bitcoin also has poor quality of information surrounding it, and often even metrics as simple as daily trading volume can be extremely difficult to track. Yes, Bitcoin offers the potential for large capital appreciation, but it offers significantly more risk on the downside.

How does investing in Bitcoin compare to buying a stock or bond?

One interesting challenge of Bitcoin investment is that Bitcoin is not currently regulated by the Securities and Exchange Commission (SEC). When it comes to the standard securities markets, you can dig into a company's financial statements and follow fundamental trends and analysis. Bitcoin's price action is purely speculative, which leads to massive price swings. In fact, to this day there remains no proven method of valuing Bitcoin, which makes it incredibly hard to determine how much Bitcoin is actually worth. For example, if you were attempting to make an assessment on the value of Apple, you could look at its financial statements, prior year's earnings trends, and other financial metrics related to business performance. With Bitcoin, there is no way to do this.

Is there a safer way to enjoy the benefits of cryptocurrency investment, while avoiding some of the risk?

One great method Ambassador has found to reap benefit from the meteoric rise of cryptocurrency is through the GLRY ETF. Last year, the company Micro Strategy Incorporated purchased roughly one billion dollars of Bitcoin, comprising roughly 70% of its balance sheet. Since then, its share price has increased drastically, outperforming even Bitcoin itself. Through proper portfolio allocation and rebalancing, Ambassador has been able to see great performance through companies like this, while also minimizing the current risk associated with crypto assets. We do not believe buying Bitcoin directly is a sound investment choice at this stage of the game, but we may have found a successful way to see returns on the back end utilizing minimized risk without sacrificing incredible performance.

What does Ambassador Advisors think about cryptocurrency?

Ambassador Advisors focuses on finding assets that offer a healthy balance of reward versus risk. Investing directly in Bitcoin most definitely does not fit that profile, as it is largely considered to be a risky and volatile investment. Additionally, with Bitcoin being unregulated, there is additional risk surrounding the security of the underlying investment. At this stage in the life of crypto, it shows more traits of a gamble than anything else. That said, we do recognize the role cryptocurrency can play, and we believe that, in the future, if volatility declines and more sound regulatory guidelines are formed, cryptocurrency could present tremendous opportunity. In the meantime, we will focus on using developed fundamental methodology to achieve sustainable growth, so we can focus on being better stewards of what God has given us.

1 Timothy 6:9 (ESV) says, "those who desire to be rich fall into temptation, into a snare, into many senseless and harmful desires that plunge people into ruin and destruction." At Ambassador, we strive to avoid speculative decision making, so we search for fundamentally exceptional biblically-responsible companies is the best way to help our clients achieve their financial goals.

ARTICLES FOR FURTHER READING:

https://www.investopedia.com/terms/b/bitcoin.asp

https://www.cfainstitute.org/en/research/foundation/2021/cryptoassets

https://www.bloomberg.com/news/articles/2021-01-22/cryptos-won-t-work-as-actual-currencies-ubs-economist-says

https://www.fxstreet.com/cryptocurrencies/news/microstrategys-correlation-to-bitcoin-price-surpasses-67-while-mstr-skyrockets-202101060822

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