

THE REMARKABLE ENDURANCE OF CRYPTO¹

[Charles Pahud de Mortanges²](#)

December 2023

As we approach the end of another year, it presents an ideal opportunity to carefully examine the events that have unfolded over the past twelve-month period. Regrettably, 2023 was predominantly characterized by a series of calamitous occurrences that significantly impacted the global landscape.

One of the major issues that persisted throughout the year was the ongoing hostilities that plagued different regions, causing immense suffering and instability. These conflicts were not isolated incidents, as numerous coups, armed conflicts, and political crises occurred in various parts of the world. Additionally, catastrophes related to climate change and earthquakes, were but a few notable incidents that contributed to the overall negative atmosphere of the year.

Amid these negative events, there were also positive developments in 2023, especially for those invested in crypto assets. To paraphrase Mark Twain³, it seemed that reports of the gradual demise of crypto were greatly exaggerated. More to the point, *Bitcoin is back!* Contrary to predictions, the decline of cryptocurrencies was not as significant as some had anticipated, and in fact, Bitcoin experienced a remarkable resurgence. Despite a difficult 2022, Bitcoin consistently increased in value throughout the past year, and in the final months of 2023, this upward trend transformed into a rapid surge. Surpassing expectations, the value of Bitcoin rebounded significantly, with a rise of over 150% YTD.

Recently, *The Economist* newspaper drew an analogy between the resilience of cockroaches and the crypto industry. It said that cockroaches are notoriously hard to kill, surviving decapitation, extreme pressure (i.e. whacking), and lack of air (drowning). Similarly, the crypto industry has shown remarkable resistance and fortitude despite various attempts by (mostly) government agencies to either seriously curtail the use of crypto, or eliminate it altogether. Like cockroaches, the crypto industry has shown an almost impossible-to-kill nature,

¹ Disclaimer: This article is provided for informational purposes only. It is not offered, or intended, to be used as financial, investment, or other advice.

² Charles Pahud de Mortanges is Full Professor (Emeritus) at the HEC School of Management of the University of Liège, Belgium.

³ American author Mark Twain's famous quote, "The reports of my death are greatly exaggerated," originated from a cable he sent from London to the press in the United States after his obituary had been mistakenly published.

surviving and adapting through various challenges and continuing to hold potential value and utility.

Typical arguments made against crypto are familiar: its use in criminal activities such as money laundering, terrorist financing, and ransom demands in cryptocurrencies such as Bitcoin. Despite regulatory crackdowns and financial crimes involving key figures in the industry (e.g. FTX's Sam Bankman-Fried and Binance's Changpeng Zhao), the sector continues to revive and thrive (see Figure 1 below). Despite setbacks in 2022, including a crash in crypto prices and persistent legal issues, the value of Bitcoin has rebounded significantly, indicating the sector's robustness. *Why is this?*



Figure 1. The price of Bitcoin January – December 2023.
Source: Trading View.

I have previously written about cryptocurrencies:

<https://hdl.handle.net/2268/299608> and <https://hdl.handle.net/2268/300255>

This time, I will discuss what I believe are the 10 most compelling reasons why crypto will not go away:

1). Decentralized Nature;

Cryptocurrencies operate on a decentralized network, primarily through blockchain technology. This means they are not controlled by any single entity or government. The decentralized nature of cryptocurrencies makes them resistant to centralized control or manipulation. For Bitcoin, this decentralization is a core feature, with its network maintained by a global group of nodes and miners, ensuring no single point of failure or control. The decentralized nature of the blockchain and the incentive structure for maintaining it ensure its continuity unless the value of tokens completely collapses (which I think unlikely)

2). Built-In Scarcity;

Bitcoin, in particular, has a built-in scarcity, with a cap of 21 million coins. This scarcity mimics that of traditional precious metals, such as gold, and contributes to its value over time. Unlike fiat currencies, which central banks issue in unlimited quantities, Bitcoin's supply is algorithmically limited, protecting it against inflation and devaluation.

3). Increasing Adoption and Institutional Interest;

Over the years, cryptocurrencies have seen increasing adoption not just among individual investors but also from institutional players. Major financial institutions, hedge funds, and even some governments have started to recognize

the potential of Bitcoin as an asset class. This growing acceptance and investment from institutional entities lend legitimacy and stability to the cryptocurrency market.

4). Technological Innovation and Utility;

The underlying technology of cryptocurrencies, particularly the blockchain, has a wide range of applications beyond just financial transactions. This includes smart contracts, decentralized finance (DeFi), non-fungible tokens (NFTs), and more. Bitcoin, as the first and most prominent cryptocurrency, benefits from this broader technological innovation and interest.

5). Diversification in Investment Portfolios;

Cryptocurrencies, especially Bitcoin, are increasingly being recognized as serious assets that are distinct from historical bubbles. Investors increasingly view Bitcoin and other cryptocurrencies as a means to diversify their investment portfolios. Owing to their low correlation with traditional asset classes such as stocks and bonds, cryptocurrencies can act as a hedge against market volatility and inflation, attracting investors looking for alternative investment strategies.

6). Global Accessibility and Inclusivity;

Cryptocurrencies provide financial services to global audiences, including those without access to traditional banking systems. This inclusivity and ease of access makes cryptocurrencies, especially Bitcoin, appealing to a broad user base worldwide, fostering a resilient and growing community of users and investors.

7). Resistance to Censorship and Government Control;

Cryptocurrencies are inherently resistant to censorship and government control. Transactions in cryptocurrencies like Bitcoin can be made without the need for a central authority, making it difficult for governments to freeze accounts or block transactions. This feature is particularly appealing in regions with restrictive financial systems, or where the populace distrusts the government's monetary policy.

8). Evolution and Adaptability;

The cryptocurrency ecosystem is continuously evolving, with new technologies, protocols, and use cases. This adaptability allows the crypto industry to overcome challenges and limitations, whether they are technological, regulatory, or market-driven. The industry's continuing investment in development, including new applications such as social media and gaming, adds potential value despite uncertainties about widespread adoption.

9). Legal Rulings & Adaptation to Regulatory Environments;

Several legal rulings have been made against crypto exchanges, indicating increased regulatory scrutiny and enforcement. For instance, the U.S. Securities and Exchange Commission (SEC) has filed charges and issued cease-and-desist orders against various entities for the unregistered offer and sale of crypto asset securities, as well as for alleged fraud and violation of securities laws. The legal rulings against crypto exchanges are not necessarily a bad thing, as they indicate increased regulatory scrutiny and enforcement, which can help in removing the "bad apples" from the industry. Overall, legal rulings in the crypto industry can contribute to a more transparent, secure, and stable market, fostering growth and innovation in the sector. But more importantly, recent legal

rulings favoring the crypto industry, such as the American court's decision regarding the conversion of a Bitcoin trust into an ETF, have bolstered the industry. This, along with interest from major fund managers, suggests a potential influx of investment into cryptocurrencies.

Despite initial resistance and challenges from regulatory bodies worldwide, the cryptocurrency industry is increasingly adapting to comply with legal and regulatory standards. This adaptation is crucial for its long-term survival and legitimacy. As governments and financial authorities develop clearer regulations and guidelines for cryptocurrencies, the industry is responding by implementing more robust compliance measures. These include Know Your Customer (KYC) and Anti-Money Laundering (AML) protocols, which are becoming more prevalent among major cryptocurrency exchanges and platforms.

This willingness and ability to adapt to regulatory requirements not only helps reduce the risks associated with cryptocurrencies (such as fraud, market manipulation, and illicit activities) but also increases the confidence of institutional and retail investors. As the industry continues to mature and align itself with regulatory frameworks, it is likely to gain more mainstream acceptance and stability, contributing to its indestructibility in the financial landscape.

Furthermore, the proactive engagement of some crypto entities with regulators and policymakers to shape a conducive regulatory environment indicates the industry's commitment to sustainable growth. This collaboration can lead to a balanced approach that safeguards investors and the integrity of the market, while fostering innovation and growth in the crypto space.

10). Artificial Intelligence;

The emergence and advancement of artificial intelligence (AI) represent a significant and potentially transformative development for the Bitcoin ecosystem and the broader financial sector. As AI technology continues to evolve, it is poised to play an increasingly autonomous role in conducting financial transactions, potentially reducing the need for traditional banking systems and paving the way for more technologically advanced forms of monetary exchange.

AI systems already autonomously initiate and execute financial transactions without direct human intervention. This capability continues to revolutionize the way financial operations are conducted, introducing higher efficiency, speed, and accuracy. AI's ability to analyze vast amounts of data and execute transactions in real-time could be particularly beneficial.

The shift towards AI-driven financial transactions necessitates a corresponding evolution in the nature of money itself. Traditional banking systems, which often rely on legacy infrastructures and manual processes, may struggle to keep pace with the speed and complexity of AI-operated transactions. This gap underscores the need for a more advanced form of money, one that is inherently digital, highly secure, and capable of interfacing seamlessly with AI technologies. Bitcoin, with its digital decentralized nature, presents a form of money that aligns well with the requirements of an AI-driven financial landscape. As AI technologies become more sophisticated in handling tasks such as investment

analysis, portfolio management, and predictive financial modeling, the need for a compatible digital-first currency becomes more pronounced.

The outlook for Bitcoin's future appears particularly promising to some industry observers. A notable example is Michael Saylor's¹ prediction of a substantial increase in Bitcoin demand by 2024, which he suggests could potentially lead to a ten-fold rise in its price. This optimistic projection hinges largely on the anticipated approval of a spot Exchange-Traded Fund (ETF), as well as Bitcoin's halving², expected to occur around mid-April 2024. Given MicroStrategy's considerable Bitcoin holdings and Saylor's prominent role in the cryptocurrency sector, their perspectives are getting significant attention within the crypto community, especially as the U.S. Securities and Exchange Commission (SEC) nears its decision on the ETF approval in January.

This scenario presents a critical juncture where favorable regulatory decisions could intersect with market forces to significantly influence Bitcoin's price trajectory in 2024. After 18 months of negative press and a series of far-reaching enforcement actions, the current market rally could represent a decisive shift from previous patterns, potentially setting the stage for a new phase in Bitcoin's evolution rather than merely initiating another bull run. It may prove the "cockroach theory" to be empirically valid. A more open, inclusive and transparent financial system that benefits everyone, everywhere will be difficult to crush. *Happy New Year!*

¹ Michael J. Saylor is an American entrepreneur and business executive. He is the executive chairman and co-founder of MicroStrategy, a company that provides business intelligence, mobile software, and cloud-based services. As of November 30, 2023, MicroStrategy holds 174,530 Bitcoins. This makes MicroStrategy the largest corporate holder of Bitcoin in the U.S.

² Bitcoin halving, occurring every four years, halves the reward for mining Bitcoin transactions. This process aims to limit new coins entering the network, controlling Bitcoin's inflation. Halving reduces the supply of new Bitcoin over time, likening it to scarce resources like gold.