

Banking on bitcoins: Could crypto-currency be the future for Louisville?

Written by Mark Boxley The Courier-Journal
Mar. 7, 2014 |

courier-
journal.com

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Louisville resident and part-time bitcoin trader Mike Miescke believes the virtual currency will be commonplace in Louisville and the world within five years. / Mark Boxley/The Courier-Journal

What is a bitcoin? A bitcoin is a highly encrypted, unique piece of code. The transaction history of each bitcoin can be traced back to its creation. This means that when you purchase a bitcoin and it is transferred to your account (called a “wallet”), you can see how many times it has been transferred and when. All of this information is stored in an online “shared public ledger” that is accessed every time a bitcoin is traded. From Bitcoin.org

Give it a year and you might be using bitcoins to buy pizza, bourbon, concert tickets or pretty much anything else — even in Louisville.

Despite recent setbacks — including a major theft and then a bankruptcy declaration by Mt.Gox, the largest bitcoin trader in the world — experts like Jerry Brito, a senior research fellow with the Mercatus Center at George Mason University, say the crypto-currency is “going to change the world.”

A bitcoin is a highly-encrypted form of online currency, like virtual cash that can be transferred instantly from person to person without any fees. Bitcoins have no inherent value and are only worth what people are willing to pay for them, which, like the stock market, can fluctuate wildly.

“It’s a completely revolutionary technology,” not unlike the Internet, personal computing and the iPhone, said Brito, a crypto-currency expert who testified about the bitcoin before the U.S. Senate Committee on Homeland Security and Governmental Affairs in November.

Louisville resident and part-time bitcoin trader Mike Miescke agrees, noting that the online currency’s popularity is “growing every day” — despite last week’s Mt.Gox disaster.

After hackers stole 850,000 bitcoins — that’s about \$564 million at Thursday’s exchange rate — Tokyo-based Mt.Gox filed for bankruptcy last Friday. Exchange CEO Mark Karpeles blamed a weakness in the site’s trading systems for the loss.

And Campbell Harvey, a finance professor at Duke University who lectures on crypto-currency, said the Mt.Gox hacking problem was not a bitcoin issue — they are incredibly secure, and their code can be traced back through every transaction, all the way to its creation, he said.

Mt.Gox, on the other hand, wasn't so secure, he said. The site, which was created initially as an online trading post for "Magic: The Gathering" cards, was acting as a place for people to trade their bitcoins, but also as a bank — one with no security guards and an open vault, Harvey said.

He described last week's losses as "the greatest bank heist in history" caused by everyone at Mt.Gox being "out to lunch."

Yet neither he, Brito nor Miescke sees the Mt.Gox debacle as a reason for bitcoin users to fret.

In fact, some argue that it may have been more beneficial than damaging for the value of the bitcoin.

Though the loss caused a brief crash in the currency's value — dropping as low as \$400 during daily trading the day the site shut down — values rebounded within days, hovering between \$550 and \$600 for nearly a week before making a dramatic jump to almost \$700 Tuesday.

There are a lot of possible explanations for the rebound, Brito said, including some users' relief that Mt.Gox is no longer a player in the market. He also suggested that governmental unrest, like the situation in Ukraine, can prompt people to seek ways to change their cash into non-government-backed currency.

Miescke, who works in the entertainment industry and only trades bitcoins on the side, said he realized early on that Mt.Gox was a site to avoid. "I wasn't going to store anything there; I wasn't going to trade anything there," he said.

It's hard to know how many people around the world own bitcoins, but the currency has attracted media attention, and an increasing number of retailers, including Overstock.com, are beginning to accept it.

Louisville attorney Larry "The DUI Guy" Forman, announced in December that he would accept bitcoins as payment for his services.

Forman said he jumped on the bitcoin wagon when he saw how popular the currency was in Europe. "I wanted to bring it into this state," he said.

So far, no one has used them as payment, but Forman thinks they soon will.

"It's not (widely used) because people are hesitant," he said, adding that not many people in Kentucky know what it is.

Speculative investors have also jumped into the fray, sending the currency's value fluctuating wildly in recent months. In early December, the value of a single bitcoin hit an all-time high of more than \$1,100.

Harvey said going to something like the bitcoin is a smart step for businesses. Accepting credit cards can get pricy when every transaction has a 3 percent fee. With the bitcoin, that isn't an issue — they are handed from one person to the other instantly, with no middleman, he said.

That is how Miescke does his trading. He meets potential buyers at the Chenoweth Lane Heine Brothers' Coffee shop — they hand him cash, and he transfers them bitcoins, or a fraction of one, depending on how much they want to buy. "It's just that easy," he said.

Still, even supporters acknowledge that crypto-currencies are not without a downside.

When bitcoins were created in 2009 by a software developer only known by the pseudonym Satoshi Nakamoto, they were worth almost nothing, just a fraction of a penny each.

And though they are worth far more now, it will be hard for crypto-currency to gain widespread use unless its value becomes more stable, Harvey said, adding he's not sure how that can be accomplished.

Another issue is that as a non-regulated, decentralized virtual currency, if someone steals a bitcoin, it's gone, he said. The Mt.Gox situation is a perfect example — the hundreds of thousands of bitcoins owned by users on the site cannot be recovered, he said.

Even so, experienced venture capitalists are hopping into the development of the bitcoin, which has up to this point been created and maintained by "amateurs and hobbyists," Brito said. And getting those "serious players" in the market is going to help make crypto-currencies a viable way to do business around the world, he said.

"Crypto-currencies are here to stay," he said. "(The concept) is revolutionary and that's not going anywhere."

Louisville's Miescke noted that many people were skeptical about the internet when it was in its infancy. He expects the bitcoin to follow the Internet's path to widespread use and acceptance.

That's why he believes a local store near you will soon take your bitcoins.

"Next year it's going to look completely different," he said. "The early innovators, the early adopters, they're going to start it, people are going to start seeing, they're going to start catching on."

"I feel like it will be a viable form of payment everywhere in the world in the next five years."

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