OAK INVESTMENT MANAGEMENT GROUP

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Crypto-currencies, blockchain and real estate

J.P. Morgan both in a recent research note as well as through its CEO Jamie Dimon have sent an unambiguous message about Bitcoin – it is a fraud. This is an exceptionally strong word – and a statement that is only presumably practically possible because of how Bitcoin is organised: There is no one entity that can hold him legally accountable for the use of this word if it is indeed erroneous.

Unlike the 'missold' mortgage backed securities, for which JP Morgan had to pay a $13 billion in November 2013 in a US Department of Justice settlement, or the London whale incident in 2012 when persons acting for JP Morgan bet the wrong way on credit default swaps, for which the bank realised a loss of $6 billion, Mr Dimon sees with absolute clarity that bitcoin is a fraud, deception and a Ponzi scheme.

If one were being generous, this is analogous to David Cameron saying he did not see the point of Twitter in 2009. The fact that Twitter seems to be the chief weapon from the arsenal of the POTUS is a sign of how wrong that statement was. If one were being mean spirited, Jamie Dimon is trying to stand in the way of disruption that will call into question the very existence of his industry.

A blockchain system is a de-centralised ledger, which renders it secure and immutable, to which market participants have access if pre-defined criteria are met. Non-mediated peer-to-peer transfers become possible. It is impossible to understand how this development *cannot* change everything.

Sure, there will be false starts, failures and thefts. But buccaneers cajoling and stealing from market participants has always taken place when there is paradigm shift and commensurate upswing in values (think agricultural and industrial revolutions, early industrialised capitalism, and dotcom internet age). This fact does not negate the very real leap that has been made in the organisation of the world's financial resources. Bitcoin is, of course, built on the blockchain and is the largest capitalised (c. $65 billion) of all the many currencies that have been started. It is also simply a store of value so unlike, for example, Ether it does not have any other function. Our contention is that there is no real distinguishable difference between the blockchain and the currencies that are built on it as one is the cause of the other – and thus inalienable.

Operationally, real estate stands to gain a great deal from this new world. Real estate investing is essentially the art of holding a stock of property for the purpose of receiving contractually agreed rents as well as an investment opinion on the capital value going up. Even if blockchain does not immediately and completely supplant the old system *competition* from blockchain will affect every level of this process: due diligence function (past and present trading information on the asset),

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purchase function (legal questionnaires and searches), exchange and completion mechanism (purchase price transfer), payment function (outgoing), collection function (incoming), validating function (managerial oversight), security function (safety) to name a few.

Macro-economically, real estate will benefit from the increasing velocity of circulation caused by crypto-currencies and blockchain. Either fiat transfers will have to become quicker and quicker or there is a real possibility that crypto-currencies will enter the main economy as a mode of exchange. If crypto-currencies can be transferred anywhere, safely instantly how can we justify waiting for a transfer that takes sometimes over three days? Specifically, this mildly increases the return on real estate (because there is less waiting for transfers) but generally is a much welcome stimulant to the global economy through slightly higher working capital to all businesses.

In the week after the Chinese have tried to clamp down on crypto-currency exchanges it is clear that this area is the new frontier of capitalism, and it is not altogether welcomed by institutions as diverse as JP Morgan and the People's republic of China. But not being welcome by the *status quo* should come as no surprise. This new world gives incredible opportunities for freedom that is viewed with horror by the largest US bank with $2.5 trillion of assets or a Communist country with a GDP of just over $12 trillion.

Governments (and banks) can police the fiat entrances and exits of the blockchain world but it is unfeasible for them to interfere with this revolution and how the underlying technology will change the world forever. There have been attempts by banks to try and create their own internal blockchain but we strongly suspect that such moves are doomed to failure. We are saying categorically that blockchain enabled technologies (currencies and others) are the future. In due course, Mr Dimon will come to regret his statement and current convictions.

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