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## The Lowdown on Bitcoins

*Around 1995 I attended a conference about a new mail service called Internet that reached anywhere in the world for free. It was almost too good to be true. When I returned to my high-tech office in Ottawa of SPS (300 employees in 6 cities) to tell my engineers, scientists and programmer about it, and predict it would take off, I was almost laughed out of the room. Today, in 2017, as I talk to friends about bitcoin, I get a similarly skeptical response. This paper shares our current information. You judge for yourself.*



William E. Caswell

Bill Caswell is an experienced coach of CEOs and senior executives around the globe. The author of 14 books, Bill has penned the 12-book series *The Respect Revolution* written, by a CEO for CEOs, as a guide to getting your company to *Excellence* and keeping it there.

### Getting Bill Started

Around 1995, I read a book on the Internet subject called “*Net Gain*”. This past month, I read a book about bitcoins called “*How Money got Free*” by Brian Patrick Eha<sup>1</sup>. The situational similarities between the two books seem huge.

### Getting Bitcoins Started

Satoshi Nakamoto in 2008 announced the birth (and in 2009 released the software) of bitcoin by writing very complex computer code to make electronic money a reality. Then Satoshi walked away from it all. Even his name was not real. So, he (or she) remains unknown. Satoshi Nakamoto devised a way for people to spend digital cash permanently, and for everyone else to be able to check the validity of each transaction because it is structured like a logbook signed by each person who holds the bitcoin. For any transaction coming your way, you can check the previous signature to verify the ownership. Anyone can see how much money is being held at a given address but nobody knows to whom the money belongs.

Satoshi’s design went one step further: the system requires that all transactions be publicly broadcast to the entire network running bitcoin software so that anyone with an Internet connection at any time can check any (and all) transactions. If a person were to attempt to spend a bitcoin twice, the second transaction would be beamed out to the network; the first (real) transaction would have such a huge head start that it would be impossible for the fraudulent second transaction to ever catch up (like a runner trying to win a 100-meter race after giving the opponent a 50-meter lead). Bitcoin allows, for the first time ever, the final transfer of value without the need to trust third parties such as banks, PayPal, or Western Union.

### Money is Socially Agreed

Cash has a socially agreed-upon value; it allows two parties, who do not trust each other, to do business. Electronic money on the other hand, is like any other electronic data: it can be opened and distributed by anyone ad infinitum. Before bitcoin, the way to avoid dishonesty or counterfeit for online financial transactions was to employ a trusted third party to hold the money (such as electronic banking). Users trust these services to keep an accurate record of transaction so that no double payments are possible. Socially agreed-upon value applies to not only to cash, but also to gold, paintings, rare wines – or cigarettes in WWII prisoner-of-war camps. If bitcoins become socially agreed upon, then it will stick. The chance of bitcoins being socially agreed upon for value, depends on its widespread acceptance and that in turn, depends, very much, on the advantages that it offers.

### Advantages

Central banks increase the money supply, thereby decreasing the value of our own money. For example, \$40,000 in 1975 had the same purchasing power as \$176,221 in 2015. Unlike banks, (a) bitcoins cannot debase its value as central banks can. (b) Bitcoins cannot lend out your money to others. (c) Bitcoin is completely private. Like precious metals, bitcoins are immune to government induced inflation.

Currently, electronic money via banks, etc. is linked, by law, to a huge amount of identifying information: name, date of birth, social security number, geographic location and transaction history. The government can access this information and banks sell it to advertisers. Credit cards hold all this information too and, therefore present huge targets for cyber theft; hackers stalk credit-card data like big-game hunters. Bitcoin is a community where the threat of violence is impossible because its participants cannot be linked to their true names or physical locations. Not only is bitcoin fast (immediate), unlimited by distance, it is totally secure.

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The bitcoins idea can be approached, not only for what it is but for what it is not: it is not issued or controlled by any government; it is not under the thumb of any big bank or credit card company; it is not beholden to the whims of any corporate executive. You can also admire what it is: it's free to use, free to accept, and free from inflation – forever; you can issue bitcoins anywhere in the world; and their real value will only grow with time.

Just as email had freed people from reliance on government-issued stamps, slow delivery, and from the pesky oversight of mail inspectors, bitcoins free people from reliance on government-issued money, slow transfer of funds, and from the pesky oversight of tax or other financial inspectors.

Bitcoins could bring financial services to the 'unbanked' in third world countries just as the cell phone connected with 1.9 billion such 'unconnected' third world subscribers (and is projected to reach 5.6 billion by 2019). Bitcoins falls prey to none of today's objectionable practices. It is fully transparent, decentralized and open. Two world markets can be seen to open up to bitcoins: retail e-commerce valued at \$1.9 trillion and global remittances (people working in a rich country sending money home to a poor country). Global remittances were estimated by the World Bank at \$601 billion in 2015. Bitcoin is seen by some to be a democratizing technology, to take power away from big banks, greedy businessmen and politicians and put more money in the hands of the world's poor. Bitcoins are immune to counterfeiting and double spending.

Satoshi's invention had users solely responsible for their own private keys and they were not forced to entrust their money to someone else for safekeeping. Bitcoin's design meant that users would never have to worry about an unscrupulous associate or employee stealing their money or hackers gaining access to their funds. As well, transferring money between different countries by bitcoin requires no permission from a higher authority.

#### **The Mechanics of Bitcoins**

By 2011, many businesses had been established to take advantage of the impending use and growth of bitcoins. *BitInstant* did a quick transfer of funds. *Silk Road* brought buyers and sellers together. *Coinpult* directed bitcoins to a chosen email address. *TradeHill* set up Internet wallets to hold and store bitcoins; only the individual had the password to the wallet – no one else did. By this time *BitInstant* had more than 700,000 retail locations connected to receive bitcoins. *BitPay* made it possible for businesses to accept bitcoin payments from customers without ever handling actual bitcoins.

#### **The Present and the Future**

While Western Union and MoneyGram charge for money transfer, bitcoin does it for free. By 2014 bitcoins transactions were at about \$100 million per day. Over the past 2-1/2 years \$30 billion of transactions have passed through *Blockchain's* free wallets by its 4.7 million users.

Bitcoins is just part of the digital story. Digital downloading of movies or of music crippled movie rentals and CD sales. If Western Union and MoneyGram don't adapt to the digital reality, they may be the next Kodak or Blockbuster.

If bitcoins are accepted, it is estimated that banks could reduce their infrastructure by up to \$20 billion per year as well as providing near instant clearing/settlement of irreversible transactions and a tamper-proof historical record of them.

The World Economic Forum predicts that by 2023 a government will be collecting tax using bitcoins with the new taxing mechanism built into the digital system.

Soon, CCCC expects to register its first bitcoin transactions.

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