

Andy Kessler presents an interesting framework for analyzing the value of Bitcoin by comparing it to the enterprise value of the payment processors. But then he inverts the logic. The main reason that Visa and Mastercard are able to charge their outrageous fees is because the service they provide is incredibly valuable! So using their market value as a proxy for Bitcoin is instructive.

This logic breaks down if brutal competition does indeed lead to prices for payment processing falling over time as competitors break the existing Visa/Mastercard duopoly. But remember, cryptocurrencies (like all currencies) are "network effect" phenomena, which means that Bitcoin or another will likely "win" as the dominant blockchain-based payment system. This will return the "industry" to oligopoly-type economics, just as Visa/Mastercard have today.

Furthermore, gold (not payment processing) is a more apt model for Bitcoin, and a careful comparison of the pros/cons vs gold (which I have examined) indicate that Bitcoin is a potential substitute. Gold isn't a medium of exchange. (Try buying something in exchange for gold). But it is an \$8 trillion asset. Bitcoin only needs to capture a slice of that to become much more valuable.

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