

FINANCIAL MARKETS

BLOCKCHAIN: A NEW WORLD



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IS THIS THE FUTURE?

FOREWORD

There's no doubt that 2017 was the year of cryptocurrencies. The popularity of Bitcoin and its peers saw cryptocurrency prices boom.

Yet, so far these cryptocurrencies haven't been adopted on mass as a means of payment. Rather, their popularity stems from speculators looking to profit on price spikes.

But there's something far more exciting at play here than speculative gains. Most cryptocurrencies use something called blockchain technology. This technology has the potential to change the world. We explore why in this eBook.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

WHAT IS BLOCKCHAIN TECHNOLOGY?

EXPLORING BLOCKCHAIN

Many traders find it difficult to understand blockchain technology. Yet it's actually simple to understand.

Firstly, let's be clear. Blockchain technology is a big deal. Many call blockchain technology the 'new internet'. However, it was first developed for Bitcoin - the original cryptocurrency.

So what's special about blockchain? Well, it essentially decentralises the storage of information across peer-to-peer networks.

Let's look at Bitcoin as an example. Bitcoin transactions aren't stored in one centralised place. Rather, they are maintained on a digital public ledger. This ledger is curated and maintained by the network (called 'nodes').

At first, this might not seem that significant. But think for a second

about how digital public ledgers (that everyone can see) could disrupt existing industries such as banking, accounting and real estate. Before we explore that in further detail, let's look at why blockchain technology yields so much potential.

Transparency

As it provides a digital public ledger, blockchain technology is truly transparent. Every member of the peer-to-peer network can view every transaction on their computer.

Accuracy

Digital public ledgers provided by blockchain have better accuracy. No existing records/transactions can be altered without the network seeing and agreeing to it.

Security

As blockchain is a decentralised technology, it's more difficult for hackers to attempt to manipulate data within public ledgers. This method of enhancing security is also inexpensive.

Speed

Transactions on blockchain are fast, as they simply rely on the peer-to-peer network to verify them.

Imagine how many industries could be revolutionised with increased transparency, accuracy, security and speed? An obvious area this applies to is finance. However, pretty much any industry

that relies on transactions could stand to benefit. Here's how blockchain could disrupt the following industries/areas:

Banking

Payments between banks can take between three to five working days to process. Blockchain would solve this problem. In fact, blockchain could make many banking services obsolete - as it essentially removes the need for a centralised 'middleman' to process transactions.

Accounting

Blockchain technology could make transaction reconciliation and filing tax returns a thing of the past. Removal of these administrative tasks could make accounting more efficient and affordable.

Real Estate

Buying property and land is an expensive and time-intensive exercise. Blockchain could dramatically simplify the process of buying property or land, and remove the administrative expenses with it.

Elections

We've already seen blockchain being used in elections. Sierra Leone used the technology in March 2018. Instead of manually counting ballot papers, blockchain would produce reliable and instantaneous digital results (available for everyone to see).

BETTING ON BLOCKCHAIN?

LOOK FOR EARLY ADOPTERS

Now that you understand blockchain technology's potential, you might be thinking of how you can take advantage of it in the financial markets.

The obvious place to start is cryptocurrencies. Specifically, you should try to look for cryptocurrencies that are attracting the interest of global financial institutions. One such cryptocurrency is Ripple. A number of banks and payment providers are working with Ripple to use its scalable blockchain technology to produce faster, more secure and cheaper transactions.

Specifically, Ripple is helping banks with cross-border payments (which typically take a long time to process). Santander, American Express, and Standard Chartered are just some of the institutions working with Ripple technology. Ripple also provides blockchain technology solutions for instant and rich payment processing.

In addition to Ripple, traders should look to try and identify cryptocurrencies that hold utility potential. In other words, cryptocurrencies that could eventually be used as a mass means of payment. Remember, at the time of writing, cryptocurrencies are being held as a speculative investment, rather than an actual payment means.

The truth is, it's far from clear what cryptocurrency will emerge in this space. In fact, it's likely that they'll be several to serve particular niches.

Some have predicted that corporations and countries could attempt to create their own cryptocurrencies. But keep in mind that a primary pillar of blockchain technology is its decentralised nature, something a corporation or country could struggle with.

For now, traders should continue to monitor the major players in the cryptocurrency space, including Bitcoin, Ripple, Ethereum and Bitcoin Cash. Here's a brief synopsis of each cryptocurrency:

Bitcoin: This cryptocurrency currently accounts for nearly half of the entire digital currency market.

Ethereum: Ethereum is a programmable blockchain that allows developers to build all sorts of distributed apps and technologies.

Ripple: Ripple has found favour with various financial institutions, including Japan's large banks, to test a public ledger (blockchain).

Bitcoin Cash: A new and revised version of Bitcoin, Bitcoin Cash aims to do away with the SegWit feature of the original Bitcoin.

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