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THE COURAGE TO COME HOME

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AT THE HELM OF AUBMC

LEBANON'S CHAMPION
Chirine Njeim
OLYMPIC SKIER TO
OLYMPIC RUNNER

Pierre Rabbat
LIGHT-HEARTED HUMOR,
SHAKING THE STATUS QUO

BITCOIN
IS THE NEW GOLD STANDARD

A quick introduction into Bitcoin, blockchain and the future of money.

So, I first heard of Bitcoin (BTC) in 2011 during a casual conversation with a guy living in the United States at the time. He told me about this new digital money, which is only available in cyberspace and which, in order to get, you need to exchange hard-earned cash!

My reaction at the time was that this guy must be out of his mind. Who on earth would give away his "real world" money to receive "internet" money? Who would replace his "actual" money with "virtual" money?

In 2017, six years later, I left my job as the CEO of a financial institution in Dubai's International Financial Center and decided to focus on this ingenious phenomenon called Bitcoin and its underlying blockchain technology by pursuing a master's degree in digital currencies and establishing my own crypto advisory and digital mining company. Bitcoin and blockchain are new phenomena we all need to know more about.

Understanding Bitcoin

Let's start with the question, "What is money?" Money is simply anything that one can exchange for goods and services, or pay an obligation with. Through time, money has taken many forms, including seashells, bones, cattle, grain, metal, paper, notes – and lately digital entries.

We know that money has three functions: a medium of exchange, a store of value and a unit of account. It also has a number of properties, mainly it being divisible, durable, scarce, hard to counterfeit, transportable, widely accepted and fungible (mutually interchangeable). Each form of money is better in some of those functions than others. For example, gold is good at being a store of value and durable, but not good in being easy to transport and widely accepted. The U.S. dollar is good at being a unit of account and fungible, but not good at being a store of value (due to inflation mainly) or a medium of exchange (it can't be used in many foreign counties) or scarce (because, as a fiat currency, it is in unlimited supply.

Fiat currencies are those currencies that are not backed by any commodity, but made legal tender solely by the authority of the government.

In 2008, the financial markets collapsed and the U.S. Federal Reserve had to step in to bail-out the financial sector that was facing a critical risk of collapse.

> **"The major outcome was that many people lost their life savings while the banking sector escaped untouched.**

The major outcome was that many people lost their life savings while the banking sector escaped untouched. This led to a relative mistrust in the banking sector and its regulatory body (the Fed in the case of the U.S. and Central Banks elsewhere). In the wake of these events, a white paper describing the concept of Bitcoin was published by Satoshi Nakamoto (an online handle for a person or a group which is still unknown to this date). It sets out the basic principle of a private, decentralized, digital cryptographic currency.

Bitcoin is ruled by public consensus. Each user can choose to agree on a certain set of existing rules, propose their own rule changes, or even duplicate the whole ledger, using it independently from the original Bitcoin ledger. But, of course, their new ledger would not be called Bitcoin and one might have difficulty getting people to recognize or use it.

http://spendbitcoins.com/

Bitcoins are issued through a process called digital mining during which a decentralized group of processing units work to secure the network on which Bitcoin runs. To compensate for the resources being contributed in the mining process, "miners" are issued bitcoins. Bitcoin has a transparent monetary policy with a fixed supply embedded in its algorithm. Approximately every 10 minutes, a new batch of bitcoins is issued. Initially, each batch was 50 bitcoins and that number gets halved every four years until the year 2140, when the total supply will reach 21 million bitcoins.

Bitcoin's most valuable innovation must be its underlying secured network called "blockchain." The blockchain is a publicly available and reviewable ledger of all the transactions that ever took place since its inception. Whenever a transaction takes place, it is grouped with other transactions and placed in a "block." Once this block is full, it gets hashed, using a method called SHA256, which provides a hash (a set of alpha numeric characters) specific to this set of transactions.

If ANYTHING is ever adjusted in the block content (the transactions), its hash will directly change, impacting the hash of the following block and the following one, so on and so forth. Keeping in mind that the blockchain is duplicated in many copies all over the world, if one tries to adjust a transaction and accordingly gets a version of the blockchain which doesn't have the same hash as the other versions, the consensus system of Bitcoin will simply disregard the outlier and consider most blockchain versions having the same hash as being the true blockchain version. This explains why Bitcoin is considered extremely secure.

Lately, the concept of blockchain is being used to develop a number of different applications. Companies are trying to use the blockchain technology, or more accurately different variants of the blockchain technology, to apply them to real-life use cases. The concept of a trustless, decentralized, secured ledger is quite appealing to many sectors in which large numbers of stakeholders are involved. Such use cases include insurance, logistics, healthcare, financial services, arts, luxury items, storage, utilities, etc.

Bitcoin's most important challenge is its scalability and many potential alternatives are being considered to overcome this. These include applying the savings/checking accounts concept to digital currencies by keeping your savings in Bitcoin while using other, less secure, digital currencies for day-to-day transactions. Other alternatives are also being considered such as the Lightning Network, a second layer payment protocol that works on top of a blockchain.

In order to start using BTC today, one should start by creating a digital wallet (that can be either online or offline). The next step would be to acquire the BTC either from one of the many available exchanges or through local dealers/brokers and have them sent to your wallet. Voila! Spending your BTC is as easy as there are more than 8,000 physical locations across the world where you can buy using your BTC, in addition to the more than 100,000 merchants who accept BTC, with many of them online.

So why do I believe that Bitcoin is the new gold standard? Let's compare their attributes.

Both gold and bitcoin are considered a strong store of value as they are scarce with favorable stock-to-flow ratios; and they have both retained their value over time, despite timely fluctuations. Even though both gold and bitcoin are not practical for day-to-day small transactions such as buying your Starbucks coffee, you do have more chances paying in bitcoin than paying someone in gold bars. That is due to several factors including ease of transport and chances of acceptance and divisibility, so bitcoin is better as a medium of exchange. Both don't do well for now as units of account since that is by far fiat money's strongest functionality. A unit of account is what we assign to items in order to measure their value and compare them to one another. It is why we see an item worth $100 as more valuable than an item worth $50.

> **"Your pocket is worth $20 because you believe that, in the near future, you will be able to exchange it with someone else for goods and services worth that much in both your opinions.**

Some people argue that gold is valuable because it is contained in jewelry, when, in fact, jewelry is valuable because it is made out of gold. Money value is a matter of perception: the reason why that paper note in your pocket is worth $20 is because you believe that, in the near future, you will be able to exchange it with someone else for goods and services worth that much in both your opinions.

Bitcoin is a bullet proof concept that needs to be understood for it to be properly appreciated. I hope I did my part in that.





Zaki Soubra is an experienced finance professional, passionate about digital cryptographic currencies and blockchain technology. An entrepreneur heavily involved in ventures in industries such as fintech, tech, renewable energy, and skincare and beauty, he has a bachelor's degree in economics from the American University of Beirut, a Master of Business Administration degree from Syracuse, New York, and is currently pursuing a Master of Science degree in digital currencies and blockchain at the University of Nicosia.

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