

## Dispatch #11 -2021

April 16th, 2021

Let's start with crypto taxes as it is traditional tax week. For 2020, IRS Form-1040 specifically asks if you had crypto transactions, illustrating the IRS' growing focus on digital assets. You are expected to track the cost basis of your coins and report capital gains accurately. Other items discussed in this week's Dispatch include:

- Turkey bans crypto transactions
- "Pay me in Bitcoin" – CNBC's Jim Cramer
- Mortgage originator to accept Bitcoin/crypto
- Headlines juxtapose large banks' Bitcoin embrace now vs. prior dismissal
- Used auto prices hit a peak, but subprime auto delinquencies jump
- Vaccine penetration & re-opening: Data from Israel is encouraging
- Bitcoin School: Should you diversify your digital assets beyond Bitcoin?

### Crypto taxes

The 2020 IRS Form-1040 with crypto question highlighted (by me) is below.

<b>Form 1040</b> Department of the Treasury—Internal Revenue Service (99)		<b>2020</b> OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
<b>Filing Status</b> <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Qualifying widow(er) (QW)					
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶					
Your first name and middle initial		Last name		Your social security number	
If joint return, spouse's first name and middle initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	
City, town, or post office. If you have a foreign address, also complete spaces below.			State	ZIP code	
Foreign country name		Foreign province/state/county		Foreign postal code	
<b>Presidential Election Campaign</b> Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.					
<input type="checkbox"/> You <input type="checkbox"/> Spouse					
At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? <input type="checkbox"/> Yes <input type="checkbox"/> No					
<b>Standard Deduction</b> <b>Someone can claim:</b> <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent					
<input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien					
<b>Age/Blindness You:</b> <input type="checkbox"/> Were born before January 2, 1956 <input type="checkbox"/> Are blind <b>Spouse:</b> <input type="checkbox"/> Was born before January 2, 1956 <input type="checkbox"/> Is blind					

Source: <https://www.irs.gov/pub/irs-pdf/f1040.pdf>

The IRS is clearly paying attention to crypto assets and one can claim that this focus further legitimizes the asset class. On the enforcement side, the IRS is seeking client records from exchanges as this [article](#) highlights.

Crypto taxes are a relatively new subject, and there aren't too many subject matter experts. For example, The CFA Institute recently shared this *Yahoo Money* video of an EY tax expert. Typically, the CFA institute has its own material, but not on crypto taxes. Regardless, **this [six minute video](#) is well worth a watch, as the EY expert touches on the basics and some recent IRS actions on crypto assets.**

- You are expected to keep track of your coins' cost basis even though **exchanges/custodians/wallets are unable to because blockchains are decentralized.**
- For active traders, this Benzinga [article](#) has a list of firms that track crypto portfolios to monitor your cost basis. I don't recommend these services for long-term investors.

**This is NOT tax advice, so please consult a qualified tax lawyer/CPA for advice.**

## Turkey Bans crypto currency transactions

This [WSJ headline](#), "**Bitcoin payments to be banned in Turkey after confidence drops in Lira**" sums up the condition in the country. Bitcoin did drop about 4% on the news, and expect countries with poor financial management to continue to restrict usage.

## Bitcoin acceptance is growing

(a) **Salary in Bitcoin:** Nothing further needs to be added to the tweet below.

 <p><b>Jim Cramer</b> ✓ @jimcramer</p> <p>pay me in bitcoin!!</p> <p>8:50 AM · Apr 12, 2021 · TweetDeck</p> <hr/> <p><b>4,602</b> Retweets   <b>587</b> Quote Tweets   <b>31.5K</b> Likes</p>	<p>Source: <a href="#">Twitter</a></p>
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I did hear Cramer live on TV and he was clear that he'll take his salary denominated in Bitcoin (not denominated in US\$ and converted to Bitcoin). I know Cramer is full of hot air, but he does have a powerful platform to transmit his view.

### **b) Mortgage company to accept Bitcoin as payment.**

The Home Loan Expert LLC became the first US mortgage originator to accept Bitcoin as a verified asset and for down payments, as this [release](#) from the company explains.

First Major US Mortgage Lender makes moves to accept Cryptocurrency as down payment

This is a continuation of the [Dispatch #10](#) discussion of the **progress on Bitcoin acceptance for large ticket items**. To give banks credit, they are no longer **reporting clients with crypto to the Financial Crimes unit**, as this [2018 story from the UK](#) highlights.

Aaron Strutt, product director at [Trinity Financial](#), says: "One lender will potentially take cryptocurrencies for the deposit, but it will refer application over to the financial crime unit. It will ask for a copy of the statement from the fund platform and the bank statement for contribution trail.

As I conduct my own house search, I continue to discover first hand how digital assets assessed. My two observations to date:

- I asked both my mortgage broker and real estate broker how underwriters treat crypto assets. Both say they have not been asked that question by a client previously. It's a single data point but chalk up another point that **we are early in the adoption curve**.
- I spoke to the mortgage lending department of a local bank. They require crypto assets to be liquidated and placed in US\$ deposits to be considered one's assets.

**Decentralized blockchains do pose difficulties for underwriters.** For example, I could well have borrowed the Bitcoin/crypto in my wallet from a parent, and the banks have limited means to verify. I will continue to report on this subject and my key advice is to keep good records of your transactions.

## Banks' changing opinions on Bitcoin

The [tweet](#) below covers material I've flagged in earlier Dispatches ([#9](#) - Morgan Stanley & [#7](#) - JPM & Citi), but I like seeing the contrast in print!



**Documenting Bitcoin**

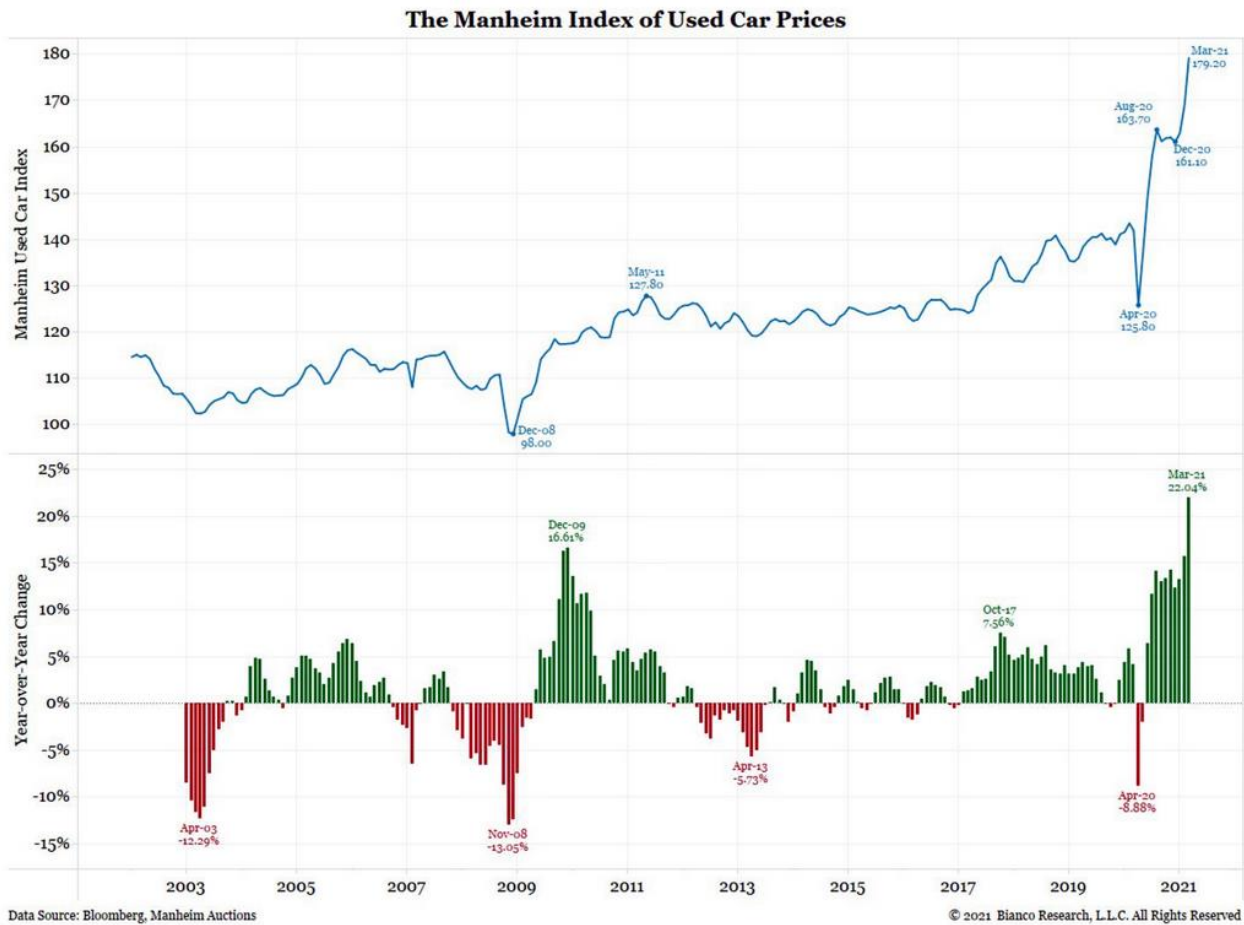
@DocumentingBTC



How it started:      How it's going:

<p><b>BITCOIN</b></p> <p><b>BlackRock CEO Larry Fink calls bitcoin an 'index of money laundering'</b></p> <p><small>PUBLISHED FRI, OCT 13 2017:2:32 PM EDT UPDATED FRI, OCT 13 2017:3:06 PM EDT</small></p>	<p><b>BITCOIN</b></p> <p><b>BlackRock fund bought bitcoin futures in January, regulatory filings show</b></p> <p><small>by Michael McSweeney</small></p> <p><small>March 31, 2021, 3:47PM EDT · 1 min read</small></p>
<p><b>Bitcoin's Real Value Could Be Zero, Morgan Stanley Analyst Says</b></p>	<p><b>FINANCE</b></p> <p><b>Morgan Stanley becomes the first big U.S. bank to offer its wealthy clients access to bitcoin funds</b></p> <p><small>PUBLISHED WED, MAR 17 2021:11:02 AM EDT UPDATED WED, MAR 17 2021:8:52 PM EDT</small></p>
<p><b>Bitcoin</b></p> <p><b>Bitcoin is a fraud that will blow up, says JP Morgan boss</b></p>	<p>Cryptocurrencies</p> <p><b>JPMorgan Says Investors Could Make Bitcoin 1% of Portfolios</b></p>

## Used car prices hit record high despite rising delinquencies



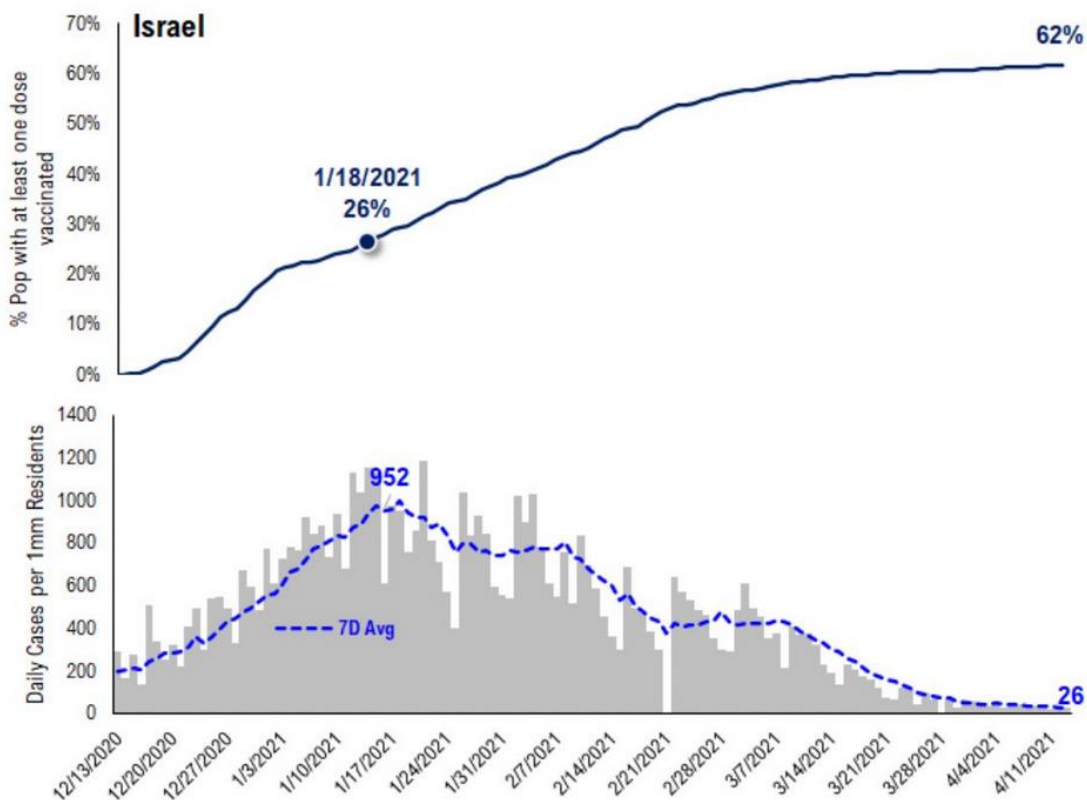
Source: Manheim Auctions/Bianco Research via [twitter](#)

<p><b>Share of subprime auto borrowers who are more than 60 days late on payments, quarterly</b></p>	<p>It's unusual to see this divergence in two data points that are closely linked. Subprime borrowers mainly purchased used autos, so it's interesting that used auto prices haven't soften.</p> <p>Perhaps falling new vehicle inventory due to a chip shortage (see <a href="#">WSJ article</a>) is adding to the price move. Regardless, it's fair to assume that used car price rise is a transitory effect.</p> <p>Source: Forbes article via <a href="#">Twitter</a></p>
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## Covid vaccine efficacy & re-opening: Israel is an encouraging leader

There is still a lot of debate over vaccines, virus variants and how quickly life should return to normal. I was delighted to see this chart that shows **remarkably low daily new covid cases in Israel as vaccine penetration rose** — this despite earlier worries about re-opening too quickly as this [article in February](#) highlights. The latest news is encouraging if you'd like life to return to normal.

- Israel has [dropped outdoor mask requirement](#).
- The country will fully reopen for [vaccinated tourists](#) from May 23<sup>rd</sup>. The reopening is for tour groups at this point.
- Full [reopening of all schools](#).



Source: FundStrat, Johns Hopkins, via [Twitter](#)

## Bitcoin School

### Should you diversify you digital assets beyond Bitcoin?

I get asked this question frequently. It's a longer discussion which also depends on the client profile. But I'll leave you with a few snippets below that provide some context on the longer term performance. Most crypto currencies are likely to lose value vs. Bitcoin, and with more than 8K coins are in circulation, it is very hard to pick the handful of winners.



**Jimmy Song (송재준) @jimmysong · 11h**

Just curious what the top 10 altcoins by market cap were 4 years ago. This is their performance vs. #BTC 

- ETH -39%
- XRP -73%
- LTC -78%
- NEM -88%
- DASH -93%
- ETC -93%
- XMR -75%
- XLM -65%
- GLM -93%
- REP -92%

Altcoin diversification is a waste of time

315 replies   501 retweets   2.5K likes

Source: <https://twitter.com/jimmysong/status/1381797745292369922>

Note: Jimmy Song is what's known as a bitcoin Maximillialist (someone who believes other assets are far inferior to Bitcoin).

Picking the 4-year performance might be cherry picking the most supportive data. The following reply to Jimmy Song asserts that Ethereum (ETH) has done better than Bitcoin over different time frames.





**Viktor Bunin** @ViktorBunin · 10h

Replying to @jimmysong

How unlucky that you picked the one time horizon where ETH handily underperformed BTC.

ETH outperformed significantly since inception, and has been outperforming the last two years coming out of the bear market. Happy to walk you through why it's great if you're keen to listen!

Date	Bitcoin	Ethereum
2021-04-12 00:00	\$59,988.02	\$2,150.27
2020-04-12 00:00	\$6,878.78	\$158.33
2019-04-12 00:00	\$5,047.79	\$165.04
2018-04-12 00:00	\$6,925.10	\$427.38
2017-04-12 00:00	\$1,218.30	\$46.20
2016-04-12 00:00	\$426.18	\$7.52
Profile	Bitcoin	Ethereum
1 year return	772.07%	1258.11%
2 year return	1088.40%	1202.90%
3 year return	766.24%	403.12%
4 year return	4823.92%	4554.47%
5 year return	13975.71%	28506.08%

Source: <https://twitter.com/ViktorBunin/status/1381808196990476289>

Let's take the two sets of numbers at face value. I will only point out that there are thousands of new coins that have been created since Ethereum was launched, and few of them have come close to matching the performance of Bitcoin through a price cycle. Most haven't seen a full cycle, which makes the analysis irrelevant. The key message is that it is hard to find the next Ethereum!

Blockchains have winner-takes-all network effects, so unlike retail shopping and Amazon, I doubt we'll get multiple large (market cap.) blockchains offering the same utility.



Stay safe and do reach out if you have any questions or comments about the material in this Dispatch.

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