

Bitcoin bursts: Hacker currency gets wild ride

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LONDON (AP) --

It's a promising form of electronic cash free from central bankers and beloved by hackers. It - Bitcoin - may also be in trouble, registering catastrophic losses that have sent speculators scrambling.

Although the cybercurrency has existed for years as a kind of Internet oddity, a perfect storm of developments have brought it to the cusp of mainstream use.

As currency crises in Europe piqued investors' interest, a growing number of businesses announced they were accepting bitcoins for an ever-wider range of goods and services. The value of a single bitcoin began racing upward amid growing media attention, smashing past the \$100 mark last week before more than doubling again in just a few days.

Then came the crash.

The price of Bitcoin has imploded, falling from around \$266 on Wednesday to just above \$40 on Thursday, according to bitcoincharts.com, which tracks trades across the Internet. The best-known exchange, Tokyo-based Mt. Gox, has suspended trading for what it described as a 12-hour "market cooldown." By late Thursday, the currency was back up to just more than \$100.

Nicholas Colas, chief market strategist for the ConvergEx Group, said it was a "great question" whether the currency could survive the wrenching ups and downs.

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Published on Electronic Component News (<http://www.ecnmag.com>)

"At this point I would say yes, since it has before," Colas wrote in an email. But he noted that, unlike previous oscillations, Thursday's collapse was taking place in the full glare of international media attention.

"A lot more people know about Bitcoin than during the prior problems," he said.

To its supporters - tech-savvy libertarians, currency geeks, and online speculators - Bitcoin has enormous promise.

Bitcoins are created, distributed, and authenticated independently of any bank or government. The currency's cryptographic features make it virtually immune from counterfeiting, and its relative anonymity holds out the promise of being able to spend money across the Internet without fear of censors, regulators or nosey officials.

The linchpin of the system is a network of "miners" - high-end computer users who supply the Bitcoin network with the processing power needed to maintain a transparent, running tally of all transactions. The tally is one of the most important ways in which the system prevents fraud, and the miners are rewarded for supporting the system with an occasional helping of brand-new bitcoins.

Cryptographers argue over whether bitcoin is well-designed, but the true test of any currency is whether it can be used to buy anything.

Increasingly, Bitcoin is passing the test. From hard drugs to hard currency, songs to survival gear, cars to consumer goods, many retailers have welcomed the money, whose unofficial symbol is a dollar-like, double-barred B.

Atlanta-based BitPay handles Bitcoin transactions for more than 4,500 companies, taking payments in bitcoins and forwarding the cash equivalent to the vendor involved, which means that its clients are insulated from the cybercurrency's volatility.

BitPay Chief Executive Anthony Gallippi said many of the businesses he served were e-commerce websites, but he said an increasing number of traditional retailers were looking to get into the game as well.

"We just had an auto dealership in Kansas City apply," he said.

Artists are into bitcoins too. Tehran-based music producer Mohammad Rafigh said the currency allows him to sell his albums "all over the world and not only in Iran."

There's long been a black market use for bitcoins as well.

Argentine software developer Patricio Fink described how he recently swapped bitcoins for a wad of American currency with a couple of Australian tourists at a Starbucks in Buenos Aires. The visitors wanted spending money at black market rates without the risk of getting roughed up in one of the Argentine capital's black market exchanges. Fink wanted more bitcoins to insulate his savings from

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Argentina's high inflation.

"It's something that is new," said Fink, 24, who described the deal to The Associated Press over Skype. "And it's working."

One of the most prominent destinations for bitcoins remains Silk Road, a black market website where drug dealers advertise their wares in a consumer-friendly atmosphere redolent of Amazon or eBay - complete with a shopping cart icon, a five-point rating system and voluminous user reviews. The site uses Tor, an online anonymity network, to mask the location of its servers, while bitcoin payments ensure there's no paper trail.

One British user told AP he first got interested in Silk Road while he was working in China, where he used the site to order banned books. After moving to Japan, he turned to the site for an occasional high.

Drug dealers aren't the only ones cashing in on Bitcoin. The hackers behind Lulz Security, whose campaign of online havoc drew worldwide attention back in 2011, received thousands of dollars' worth of bitcoins after promising followers that the money would go toward launching attacks against the FBI.

A report apparently drawn up by the bureau and leaked to the Internet last year said that "since Bitcoin does not have a centralized authority, detecting suspicious activity, identifying users and obtaining transaction records is problematic for law enforcement."

It went on to warn that bitcoins might become "an increasingly useful tool for various illegal activities beyond the cyber realm"- including child pornography, trafficking and terrorism.

That is, if the currency survives.

Bitcoin's dramatic collapse - from peak to trough, the currency shed more than 80 percent of its value - has left many enthusiasts anxious and many skeptics saying "I told you so."

"Trading tulips in real time," is how longtime UBS stockbroker Art Cashin described Bitcoin's vertiginous rise, comparing it to the now-unfathomable craze that saw 17th-century Dutch speculators trade spectacular sums of money for a single flower bulb.

"It is rare that we get to see a bubble-like phenomenon trade tick for tick in real time," he said in a recent note to clients.

One Bitcoin supporter with a unique perspective on the boom-turned-to-bust might be Mike Caldwell, a 35-year-old software engineer based in suburban Utah. Caldwell mints physical versions of bitcoins at his residence, cranking out thousands of homemade tokens with codes protected by tamper-proof holographic seals - a retro-futuristic kind of prepaid cash.

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His coins are stamped with the words "Vires in Numeris" - Latin for "Strength in Numbers."

Some may wonder whether Caldwell's coins will one day be among the few physical reminders of an expensive fad that evaporated into the ether.

When asked, Caldwell acknowledged that bitcoin might be in for a bumpy ride.

"The way I look at it is that there will be bugs and there will be minor issues from time to time," he said. But barring a complete unraveling of the currency's electronic architecture, he predicted that it would continue to grow.

"Bitcoins will either be worth nothing or worth a whole lot more than its current value," he said.

For Colas, the market strategist, the most important thing to keep in mind was that bitcoins suffer from the same weakness as any other form of money. If people increasingly believe they're not worth anything, then they're not worth anything - no matter how clever the currency's design.

"The future of bitcoin is, like all currencies, going to come down to trust," he said.

Source URL (retrieved on 02/01/2015 - 7:52pm):

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