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NEWSLETTER



E-Mail

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Bitcoin

The cryptocurrency Bitcoin has been in the news recently, as its value reached a new high and then fell back. Its success has led to the appearance of other cryptocurrencies. In this new financial environment, it is worth exploring what a currency actually is.

Currencies were originally based on gold and silver coins, whose value was equivalent to the amount of precious metal in them. Coins are heavy, though, so it is inconvenient to carry around large quantities of them. It was the Chinese who first had the idea of keeping all of the gold in one place and issuing paper bank notes to the value of that gold. That idea began to be adopted in European countries about 400 years ago and the Bank of England issued its first notes about 250 years ago.

If you look at the £5 note in your pocket, it says (as it always has, but now in very small print) I PROMISE TO PAY THE BEARER ON DEMAND THE SUM OF FIVE POUNDS. That promise is the reason that a banknote is called a promissory note and meant, literally, that anyone could take that note to the Bank of England and exchange it for five gold sovereigns. The money in circulation was paper, but it still had real value in the gold it could be exchanged for.

That right to exchange notes was suspended during the First World War, when the government was afraid of people panicking and rushing to convert their paper currency into solid, reliable gold, which would be sure to have value whatever happened. The gold standard was restored in 1925, but abandoned again in 1931 because of the depression. Since then, Britain (and almost every other country) has been issuing bank notes without backing so that, currently, less than 5% of our money is covered by gold reserves. The silver content of coins was also reduced and there has been none in British coins since 1947; coins are now, effectively, metal banknotes.

The value of currencies is now, therefore, based entirely on trust: the belief that people will continue to accept that apparently worthless paper in exchange for things of real value. That trust is broken only when countries pursue reckless economic policies, such as when the governments of Germany in the 1920s and Zimbabwe in the 2000s were printing more money to pay their bills instead of increasing taxes. More money in circulation without anything more to buy just means that hyperinflation ensues and paper money loses its value almost as quickly as higher-value notes are printed.

What does all this have to do with Bitcoin, you may ask? Well, Bitcoin's value is also based on trust, but without any government behind it to provide stability through controls like interest rates. That is what makes Bitcoin's value so volatile as rises are fuelled by over-optimism and falls are exaggerated by over-pessimism. I am reminded of the tulip mania in Holland in the 17th century, when people paid ever-increasing prices for rare tulip bulbs, based solely on the belief that someone else would be willing to pay more. It all ended in tears when, suddenly, there were no buyers and the people left holding the bulbs, who had often borrowed money to invest in them, were ruined financially. The same could happen one day with Bitcoin.

Finally, a word of caution about Bitcoin trading programs, which are dishonestly advertised on the internet with apparent endorsements from famous people. Like all get-rich-quick schemes, they are almost certain to fail and the only people making money will be the rogues selling the programs, not the investors they have duped.

E-mail Hacks

I have heard of two cases over the last year where the e-mail account of a business has been hacked and the fraudsters have contacted customers with details of a new bank account for payments. The business will probably not realise what has happened until a customer claims to have paid a bill which the business says is still outstanding. The customer's bank will not do anything to help because the money was paid voluntarily to the fraudsters, while the business is still entitled to demand payment. That is costly for the customer and bad public relations for the business.

Be wary, therefore, of any e-mails giving a new bank account and always check with the business that the change is genuine, before making any payment.

New Telephone Scam

I received a new scam call at home recently. A recorded message (in an American accent) claimed to be from BT Technical Department informing me that my internet was about to be cut off and giving me options by pressing buttons. I did not follow the instructions and find out exactly what the scam was because, besides the call sounding suspicious, I do not have internet at home and my telephone line is with Virgin.

Self-employed NI

It has just been announced that the government has abandoned its plan to abolish Class 2 NI (the weekly contribution) next year. Entitlement to benefits will therefore continue to be based on that contribution.