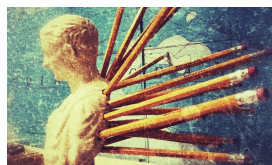




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NEWSLETTER



Are we starting to see Thiers' law in action? The reverse of Gresham's law

image Adolphe Thiers (wikipedia) - 13th April 2021

To start this conversation, we first have to understand what Gresham's Law is. In its simplest form, it is a monetary principle stating that "bad money drives out good". If there are 2 forms of

"In its simplest form, it is a monetary principle stating that 'bad money drives out good'."

money (currency) in circulation, which are accepted by law as having similar face value, the more valuable commodity will gradually disappear from circulation.

At this point I'd make sure you really understand the difference between money and currency. If you don't yet know, I'd highly recommend you watch the free **"Hidden Secrets of Money"** YouTube series in full.

Back to Gresham's Law, "good money" is money that shows little difference between its nominal value (the face value) and its commodity value (the value of the metal of which it is made, often precious metals (gold and silver), nickel, or copper). At this point whether you believe Bitcoin is a good money or not, you can't argue that 1 bitcoin in 2010, 2015 and today in 2021, is the same coin. Since inception the quantity has changed only by the agreed number (as per the protocol) and is ultimately capped at 21 million. "Bad money" (*we really should be saying bad currency here*) is money that has a commodity value considerably lower than its face value and is in circulation along with good money, where both forms are required to be accepted at equal value as legal tender.

This is a natural point to stop and mention the **Nixon shock** - series of economic measures undertaken by United States President Richard Nixon in 1971, in response to increasing inflation, wage and price freezes, surcharges on imports, and the **unilateral cancellation of the direct international convertibility of the United States dollar to gold**. In layman terms, this simply means that the world monetary system (every single currency in the world) for the last 50 years has been based on the dollar that is backed by **NOTHING**. This is a good example of bad money (currency).

Is it any wonder that most people around the world today don't even know what a gold coin looks or feels like. For 50 years, world currency has been flowing into gold and gold has been disappearing out of circulation (Gresham's Law at work)

Also worth noting, this announcement from Nixon was a temporary measure, we are still waiting for it to change some 50 years later. Maybe those who have given so much "temporary" power to their leaders through this latest episode we are currently experiencing should take note.

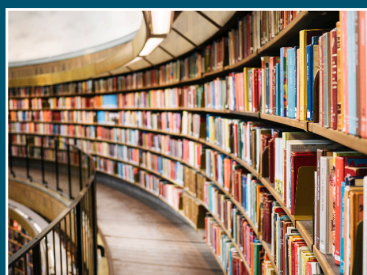
But let's not dwell on this now, is this something new? No it is not, unfortunately, we as humans really enjoy making the same mistakes over and over again. Here we are in China, Yuan dynasty, Ibn Taimiyah (1263–1328) described the phenomenon as follows:

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“If the ruler cancels the use of a certain coin and mints another kind of money for the people, he will spoil the riches which they possess, by decreasing their value as the old coins will now become merely a commodity. He will do injustice to them by depriving them of the higher values originally owned by them. Moreover, if the intrinsic values of coins are different it will become a source of profit for the wicked to collect the small (bad) coins and exchange them (for good money) and then they will take them to another country and shift the small (bad) money of that country (to this country). So (the value of) people's goods will be damaged.”

Changing gears, lets think about the growing wage and inequality gaps across the globe we are seeing today and all the social turmoil. What could possibly have happened in and around 1972 to cause these chart lines to deviate?

Productivity growth and hourly compensation growth, 1948–2018

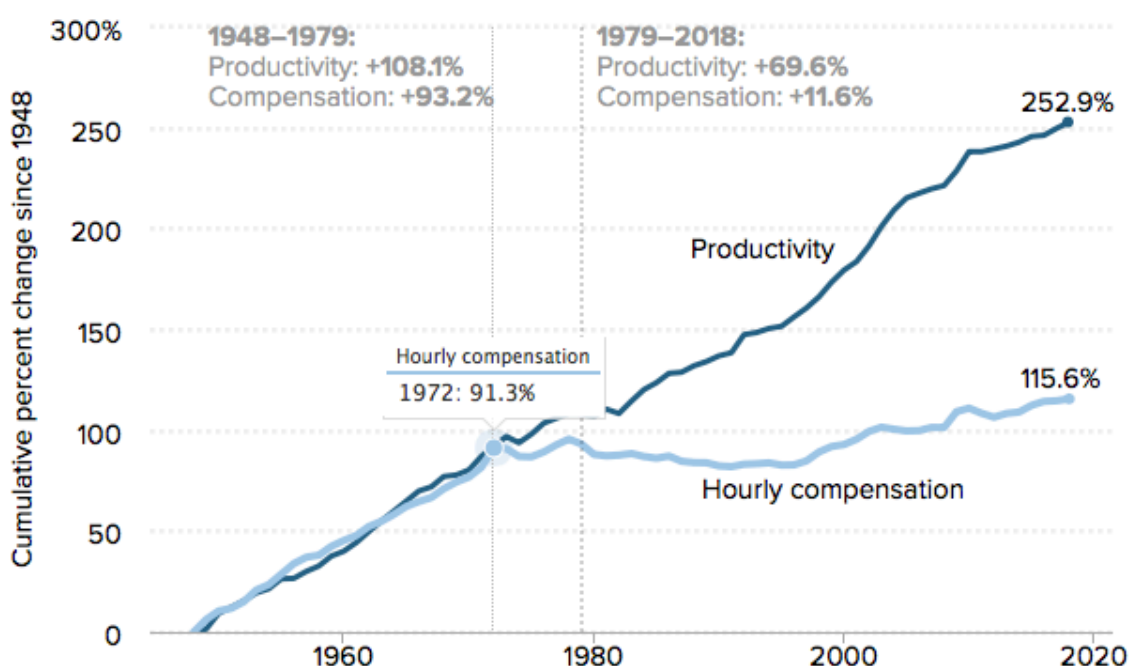


Chart from: <https://www.epi.org/productivity-pay-gap/>

What the chart above shows is exactly what happened in China 700 years before. Rulers changed the money from gold backed money to unbacked currency. Those that knew about the game, accumulated gold from \$35 and profited wildly and still do today with the price north of \$1700. Business owners, have accumulated assets from their corporate productivity gains, and the workers have received unbacked currency in exchange for their labour. And this all started when the money was destroyed. The wage and inequality gap will continue to widen until the money is fixed.

So what is Thier's Law?

Rolnick and Weber (1986) argued that bad money would drive good money to a premium, rather than driving it out of circulation (the item to consider here is the bitcoin premium today (60k April 2021) - remember when it was \$150).

During the great inflation in the Weimar Republic in 1923, Gresham's Law worked in reverse, official currency became so worthless that virtually nobody would take it. That was serious because farmers began to hoard food and any currency, backed by any sort of value became a circulating medium of exchange. In 2009, hyperinflation in Zimbabwe began to show similar characteristics, with people resorting to barter and using neighbouring countries currency.

So in the absence of effective legal tender laws, Gresham's Law works in reverse. Given the choice of what money to accept, people will transact with money they believe to be of highest long-term value. However, if not given the choice and required to accept all money, good and bad, they will tend to keep the money of greater perceived value in their possession and to pass on the bad money to someone else. *A great example of this is the recent announced by Elon Musk allowing customers to pay for a new Tesla with Bitcoin. Do you think he wants more or less Bitcoin?*

The reverse of Gresham's Law, that good money drives out bad money whenever the bad money becomes nearly worthless, has been named "Thiers' law" by economist Peter Bernholz in honor of French politician and historian Adolphe Thiers.

"Thiers' Law will only operate later [in the inflation] when the increase of the new exchange rate and the increase rate of inflation lead to the lowering of demand for the inflating money."

So in simple terms, when the Gold/USD or BTC/USD rates increase in an inflationary environment expect the demand for dollars to decline (demand for Gold and Bitcoin to therefore increase).

This is not advise, all circumstances are different, so individuals should always seek independent financial advice, please ensure you have read our disclosure.

BEWARE THE IDES OF MARCH!

Image by anon / 14th March 2021

I don't often dedicate a blog, but this one is dedicated to Mr BB. Helping and educating others to see through the noise is the best gift a person can give. So here we go, what are "the ides" and why is it important?

The Ides of March is the 74th day in the Roman calendar, which corresponds to the 15th March. In 44 BC, it became notorious as the date Julius Caesar was assassinated.

Each day of a month from the first to the last day, was not numbered by the Romans, they counted back from three fixed points of the month:

the Nones (the 5th or 7th, nine days inclusive before the Ides)

the Ides (the 13th for most months, but the 15th in March, May, July, and October)

the Kalends (1st of the following month).

The Ides were originally determined by the full moon which reflected the lunar origins of the Roman calendar and the Ides of March would have been the first full moon of the new year.

It was marked by several celebrations but most notable for the Romans as a deadline for settling debts.

So just like we set the last Friday of every month to get paid, the Romans set the first full moon of the new year (15 March) as the day that all debts should be settled.

You may now ask why this is important, well the answer might surprise you. Since these cycles have remained with us over the times, they are part of our DNA, and before every repayment of debt, people will generally have to either use saving or sell assets to repay. So it is not surprising then that over these times, “the ides”, that there is normally above average market volatility and can often be pivotal times for assets to reverse trend.

Paying off debt and market pivots aside, most put off dealing with their savings and investments after “the ides”. With the “decks cleared” it might just be the best time to look at our new offering:

MOMENTUM-ANALYTICS.IO - DEFI

Just as the Ides of March became a turning point in Roman history, marking the transition from the Roman Republic to the Roman Empire, make today a turning point in your financial future.

The difference between self custody and custodial solutions

26th Jan 2021

Custody is a financial services term that refers to the ability to hold, move, and protect assets.

You can either either do this yourself (self custody) or you can get someone to do it for you (custodial solution).

Custody is a broad term that can be applied to a number of different solutions for digital asset storage. People have many choices when it comes to storing their crypto assets, and the connectivity of those solutions poses unique concerns for their customers. Solutions range from self-custody options like a hardware or software wallet, to third-party, offline storage

Custody needs vary greatly, some investors might need to infrequently access or move their cryptocurrencies compared to others who trade more frequently. Some investors might prefer to self-custody, while some institutions might require a third-party solution.

Self-custody (Your own solution)

There are many ways to self-secure digital assets, these range from using consumer hardware wallets (ledger and trezor), to creating complex setups for the duplication, storage, and backup of printed-out private keys. Some people opt for complete control of their digital assets, and self-custodying provides a good solution.

A key consideration though is that when dealing with self-storage and private keys there are no resets, a lost key is gone forever. Self-custodying, like keeping cash in your physical wallet or locked in a drawer, poses its own risks. There is no third-party involved to manage that risk (or your funds) if you were to lose access to your keys, experience a destructive event like a fire, or

pass away unexpectedly. Backup plans are therefore very important and holders should consider their access to software updates, their personal capacity to correctly backup, restore and implement geographic redundancy. Individuals should also consider how family members or intended beneficiaries would recover funds in emergency situations.

Custodial Solutions (Third-party custody - Managed solution)

These solutions allow customer funds to be held and managed entirely by a solutions provider. The user entrusts their assets to this provider, who is then the only entity acting on the customer's instructions (the customer is not involved as a direct signing authority) - users have given access to their private keys. SLAs dictate the terms and timing conditions regarding the storage, access, and movement of customer funds.

Investors and institutions, such as asset managers, hedge funds, and/or high-net-worth individuals often go for these solutions as digital asset security is not their core business. These customers sometimes even use multiple third parties if they want two or more providers involved to verify instructions and move funds. Third-party custody solutions come in two forms, which are often referred to as online ("hot wallets") or offline ("cold storage") systems. The difference between the two amounts to whether the storage system is networked or in any way remotely operable.

Our offerings and solutions (one of each)

- We currently have a crypto offering that uses custodial solution (more information can be found [here](#) on "**Rational Active Allocation Index**") and
- we have recently added a solution for verified clients who prefer self custody (more information can be found [here](#) on "**Momentum-Analytics.io - DEFI**").

All circumstances are different, so individuals should always seek independent financial advice, please ensure you have read our disclosure.

(Please note there are **partial custody** options (hybrid), these are self-managed wallets that offer some level of third-party assistance and related institutional controls or protections. Customer and the third party are generally required to cooperate as part of the signing process based on a legal arrangement between themselves.). If you would like to learn more on digital asset custody, see more from [Gemini - Guide to crypto custody](#) article.

Check out our strategy

<https://www.iconomi.com/asset/RAAINDEX>

To ensure you never miss our blogs, follow us on twitter [@m_analytics_io](#) and feel free to forward this email/pdf to your friends and family who can subscribe to our newsletter

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