A few months ago, the crypto world totaled around $2 trillion in "market value." Now it is about $4 trillion. That is a speculative surge, pure and simple, indeed one of the greatest. Part of this recent surge in "value" is epitomized by so-called "memecoins," which are cryptos (all created out of thin air, of course) named after jokes or flash-in-the-pan cultural fads. The supporters of these coins enthusiastically pile in to participate in the coin's "pump" before the almost inevitable "dump." Hats off (for sheer brazen boldness) to the people who pound the table asserting the righteousness and freedom represented by the noble crypto universe. Just recall that pet rocks, Beanie Babies and hula-hoops all went to zero. Each of them a fad, yet all of them having at least some physical substance and objective reality. The 17th century tulip bubble, in historical fact, had more substance than the crypto bubble.

What Next?

Record valuations in stocks! Lavish promises from AI! One-day options! Leveraged ETFs with multiple layers of leverage! "Cryptocurrencies!" In all its days and decades, Elliott has never seen a market like this. Investors are swept up in the themes of the day. Crypto is ground zero because of its huge size and now the perceived proximity to the White House. Markets are acting like a crowd of sports bettors. People are winning not because their knowledge gives them an edge, but because their hunches are paying off (for now). Investing has become more like gambling than ever.

Markets and Wall Street firms seem to be trying to make stocks and cryptos as addictive as possible. Check out those sports betting and brokerage apps – they even give you some chips (or money) to start playing their games. One-day options are like games played on street corners, and they now account for the majority of options trading.

It is not the Elliott way to begrudge (much) the gambler his winnings. But rather than play games of chance, Elliott has always tried to reduce the uncertainty in every position to increase the likelihood of success. Simply guessing what markets or authorities may do is gambling, and it is not the path to a secure future. This means that all of Elliott's profitable areas have involved something other than just having a good idea. Instead, we try to apply real effort to create value instead of just "knocking on wood" and hoping we are right

Promises and Unlimited Inflation

Crypto rests on the promise of supply rectitude. Even if the supply of a particular “coin” were truly limited, creating new ones is easy. Some cryptocurrencies do indeed promise a fixed supply, while others do not. The largest crypto by value is bitcoin, which promises no more than 21 million coins will ever be “minted.” This appears on the surface to be a major improvement over fiat currencies such as dollars, yuan, euros and yen, none of which have fixed supplies.

So, what is the catch? Even if one crypto can claim to be supply-limited, the supply of cryptos is unlimited. Unlike sovereign currencies (which are at least backed by governments possessing armies and taxing powers), anyone with a computer can invent, issue and distribute cryptos. Spurred by the allure of quick riches, developers create new cryptos out of thin air seemingly every day. One rather brazen example is the plethora of memecoins launched on the platform pump.fun (yes, that is its real name; imagine that existing in any other corner of financial markets), which create cumulatively billions and billions in market cap out of nothing.

Another example is “forking.” Every crypto has its own ecosystem of developers, marketing agents and/or hucksters. These parties sometimes disagree over the finer details of the crypto’s construction, and split off to create a new version of the “coin” which then trades alongside the original. While excuses abound – mostly revolving around claims that forks are insignificant, infrequent or misunderstood – the reality is that forks result in more coins. No matter how it is spun, this is the functional equivalent of money printing.

Any fabricated medium of exchange can be used to convey value. Until cryptos, such concoctions usually required government support and acceptance to function as “money.” Otherwise, they were deemed fraud or counterfeiting. For these purposes, we define “money” in the traditional sense – a store of value backed by a central government.

Crypto, of course, is not that. By borrowing words normally used to describe physical activities (such as “mining”), crypto inventors create a perception of value that others are willing to accept. Even if cryptos are ephemeral or fraudulent, the growing economic and political stakes of powerful players legitimizing crypto have put it on the path to becoming “money.”

This is where the risks start to multiply. If cryptos are treated as money, the global money supply will expand by a significant amount. Such a shift would erode financial sovereignty and could fuel severe inflation.

What would monetary policy look like in such a world? What would it mean to control "money" when the gates of money creation have been thrown open to absolutely anyone? The consequences of this change have not been fully considered. It is one thing to invent an "asset" with unusual characteristics; it is quite another for a sovereign government to affirm that asset's status as parallel money.

The mischief this could unleash is beyond imagining. An asset whose price surges wildly, underpinning immense borrowings and spawning cookie-cutter versions, creates a cascade of risk. While Elliott has long been known for flights of pessimistic fancy (actually a critical tool for risk control and survival), the flights of imaginative fancy that power the crypto discourse have occasionally left us speechless in their audacity (not an easy thing to do!).

Cryptos' volatility and their lack of resemblance to traditional currency do not obscure the fact that "money" (or at least something that has many of the characteristics of money) has been created, and the global money supply (both classical and crypto) has grown. Cryptos' value expansion – from zero to $2 trillion to $4 trillion in just a short time – is staggering. If cryptos acquire a patina of money and remain wildly popular trading "assets," the inevitable collapse of this artificial mountain of value could wreak havoc in ways we cannot yet anticipate.

One worrying sign that this process and path may already be underway is that institutions are increasingly dabbling in cryptos. The allure of wild profits acts as a magnet even for assets with questionable substance. Somewhere between cryptos' lack of intrinsic value and its threat to the world's reserve currency lies the potential for abrupt and dramatic price shifts.

When Governments Awaken

Bitcoin is said to provide protection against the collapse of the dollar. The truth is the opposite. Bitcoin only exists in a world where a strong dollar provides the stability to permit such experiments. Bitcoin creates unauthorized money, increases the money supply and is likely to fuel inflation. It thrives now, making some people rich, but it may not be allowed to continue in the event that citizens and policymakers come to grips with the elements we have described. When governments awaken to the reality, they will regulate crypto – and possibly even ban or seize it. Given cryptos' deepening infiltration into institutional portfolios, such a crackdown could be the largest expropriation in history. That would be a spectacle like no other.