WHY CONSIDER ETHER AS AN INVESTMENT?

Wisdomtree EU
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Ether is the second largest cryptocurrency by market capitalisation behind Bitcoin. Its current market cap stands above $400bln, representing approximately close to 20% of the total cryptocurrency market[1].

Imagined in 2013, created in 2015, the blockchain network ethereum has grown in innovation and utility. Different from Bitcoin's primary function as a peer-to-peer electronic cash system, Ethereum invents a new world of peer-to-peer applications.

Note that ether (ETH) refers to the cryptocurrency used on the Ethereum blockchain. Ethereum refers to the blockchain network.

What is Ethereum?

Ethereum is a blockchain platform that handles programs and applications without relying on a centralised party. It is "the world's programmable blockchain".

The platform is built on the public, open-sourced and decentralised blockchain technology. It powers decentralised applications (dApps) that are supported by a transaction protocol utilising "smart contracts". These smart contracts can be executed by all nodes on the Ethereum network, each running a version of the "Ethereum Virtual Machine", and together making a powerful distributed computation system. The network executes peer-to-peer transactions to realise automatic, conditional transfer of value and information, including money, voting rights, and properties. Ethereum's invention is inspired by Bitcoin. It expands upon Bitcoin's functionality as a peer-to-peer electronic cash system to programmable apps. To borrow its inventor Vitalik Buterin's metaphor: Bitcoin is like a calculator, but ethereum wants to become a smartphone running many applications.

Ethereum's Technology and Application

At the core of Ethereum are smart contracts.

A smart contract abides by a pre-defined set of rules, that allows each node on the Ethereum network to automatically execute code the same way while keeping a consistent record of all transactions. This eliminates the need for a third party to carry out code execution on behalf of users, making the system decentralised. It empowers coders to create a wide range of applications layering together different smart contracts, with the potential for running more securely and more cheaply than their centralised counterparts, while being universally accessible, and fully transparent.

Ethereum's applications take advantage of blockchain technology's decentralised and immutable nature. They can be created and contributed to by anyone, without tempering the system's security. Their functions range widely, including Decentralised Finance (DeFi), Decentralised Autonomous Organisation (DAO), and Non-fungible Tokens (NFT).

To provide a concrete example on ethereum's implementation on DeFi, consider etherisc, a decentralised insurance application on the ethereum network. Members can purchase insurance directly on the application with its native token. Then, a pool of money is established, aggregating insurance payments from all members. When a disaster hits, pay-outs will be made to impacted members without the need to go through traditional insurance industry's cumbersome reimbursement process. Crop insurance, for example, will automatically payout money if drought or flood events are reported in the area by government agencies.

Why invest in ether?

The advent of the Web 3.0

Ethereum's vision is the vision of a Web 3.0, a shared web made of 100% up-time applications ruled by transparent code, and not controlled by any one entity. For many, it represents the natural next step in the evolution of internet, the internet by everybody, for everyone, controlled by no one.

This idea may seem very abstract, but the advantages it could bring are very real. Relying on a distributed network has many benefits: the service is always up and running, it is secure and immutable, fully transparent and automated, cuts out middlemen, and eventually promises shared data and services at a lower cost and at a higher speed, without the need to trust anyone entity.

Ethereum is currently the leading platform in the race for this Web 3.0. It has the largest developer community in the crypto space, and the number and variety of the projects based on its platform are impressive. Its development and adoption are supported by several organisations like the Ethereum Foundation, or the Enterprise Ethereum Alliance (EEA), which aims to drive industry adoption. The EEA has more than 200 members across industries, including companies like JP Morgan Chase, Microsoft, and FedEx.

So what about ether?

If Bitcoin is often referred to as "digital gold", ether is often considered to be "digital oil". Smart contracts execution requires a form of payment, referred to as gas. This gas is paid in ether, Ethereum's native coin. The more dApps are built on top of the Ethereum blockchain, and the more people use these dApps, the more they collectively "burn gas" when using the platform, and the more ether becomes a coveted resource.

Therefore, a major reason people invest in ether is that they recognise that Web 3.0 is the next internet revolution. They see the value of ether as the commodity that powers the largest, fast-growing, and best-positioned decentralised software platform powering this revolution[2].

Investing in ether also makes sense when it comes to building a digital assets position in a portfolio. Most institutional investors invested in crypto assets are invested in Bitcoin only. However, the use cases of Bitcoin and ether are very different, and investors may benefit from investing in both. Bitcoin aims to be a store of value, focuses on its issuance mechanism and security, and its main driver is arguably the global level of trust that the world is putting in that digitally scarce asset with a finite supply. Ether aims to be the oil of the Ethereum network. Its value should eventually be dictated by the supply-demand dynamics for this commodity, which in turn will be in a large part dictated by the demand for the Ethereum platform.

So ether is in essence very different from Bitcoin, and deserves to sit alongside it in portfolios. We believe that Bitcoin and ether may eventually decorrelate over time, as they start realising their utility value, and ether will become less driven by Bitcoin's movements, and more driven by its own fundamentals.

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Sources

[1] Source: Glassnode, 18/05/2021

[2] Source: Glassnode, 18/05/2021

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