EPISODE 1409

[INTRODUCTION]

Whitney Sewell:
The comments, opinions expressed in the podcast are those of Ms. Cranley alone and are intended for educational purposes only.

Kristine, welcome back to the show honored to have you just to continue a few segments here. As we dive into a topic that we all need to know more about. As we talked about yesterday and you went into obviously your background and Bitcoin and decentralized versus centralizing, what that means. And the peer-to-peer gives a, a great testimony to why we need to know more about Bitcoin and potentially invest in it ourselves, right.

Even went into the technology right. And why it's so remarkable how it works and how it's almost something that prime is, you know, it's almost so difficult, right. That it's, you know, almost not a problem. And I just appreciate how you went it into that. I, I wanted to begin today with, what else should investors know about cryptocurrencies say before they invest in it.

[INTERVIEW]

Whitney Sewell:
Right. And then I want to get into the current state of cryptocurrency and real estate. I know that a lot of them are wondering about that specifically. What else do we need to know before we invest in something like Bitcoin?

Kristine Cranley:
Absolutely. That's a great question. And just as a disclaimer, even though I'm a financial advisor, none of this is intended as financial advice. It's just for educational purposes only, but there are some really good things to keep in mind as you're thinking about investing. So, first of all, it's important to remember that Bitcoin and cryptocurrency are not the same thing. So they're both built on blockchain technology. But they're understood very differently within the SEC, because Bitcoin is decentralized. And so Gary Ginsler of the SEC, he taught a whole class on it on MIT. It's actually a fantastic class. If you wanna look it up on YouTube and he talks all about Bitcoin and some of the other cryptocurrencies, but he's classifying it as a commodity. It's also been the IRS, is also called it as a property, but it's basically a store of value points. So a lot of people think of it as gold 2.0. And so some of the same things that they would look to with gold to preserve wealth, a lot of people look to Bitcoin in that way. Whereas the other cryptocurrencies are more centralized and you can think of them more like technology startup companies. And so I think, I believe that they have a lot of promise. But it's very important to remember that we are very, very early in a lot of that technology. So currently there's about over 10,000 different coins and token offerings. Most of them are in their infancy stage. Most of them will probably go to nothing. So they talk big, but you have to look at what's actually being developed on them and look at the team that's putting it together. The use case. If it's a smart contract platform, the number of projects that are being built upon it, Ethereum has the most, but Solana, Cardano, they're competing for that. And then also as an investor, it's really important to

remember. It's an extremely volatile asset. Bitcoin is volatile and the other ones are even more volatile. The smaller the market cap, obviously the bigger the swings. And so what you generally see is when bitcoin goes up, the other cryptocurrencies sometimes go up faster. But when Bitcoin goes down, the other ones crash harder and they don't always come back. So if you were to go back Bitcoin, because of the halving cycle that we talked about last year, there's a general four-year pattern where there's, you know, one year where it tends to run up a lot and then come down a bit and then runs up again. And when that happens, if you go back in 2017 and 2013, all the times, it ran up, look at the other cryptocurrencies that were popular during that time. And a lot of 'em you don't even hear spoken about today. So we're still at the beginning of this kind of tech startup revolution, where people are building on blockchain technology, but there's still a lot of kinks to be worked out and we don't know who the winners are. So what I generally tell people is if you find a project that you believe in generally the best strategy is to buy in slowly over time. So just dollar cost average into the project. Don't try and time the market it's very difficult to do, but just kind of slowly buying into the projects you believe in is in my opinion, the best way to enter the assets.

Whitney Sewell:
No, that's awesome. I think it's great advice. I just wondered a couple quick questions though. The halving cycle, is that specific to Bitcoin? Are there others that do that also?

Kristine Cranley:
Every cryptocurrency is different. And so the word that they use with that is the tokenemics. So what's the tokens of each coin. And so there's a couple other coins that have limited supplies. But most of them don't work that way. And that is one of the unique aspects of Bitcoin. Some of the other ones, especially when you hear spoken about this difference between proof of work and proof of state with proof of work, you're having to use power, spend money, use energy in order to create that coin. Some of these other ones are proof of state and this again, shows kind of the centralization, why the SEC's leaning more toward calling them securities, cuz whoever created that coin, maybe they kept a whole bunch for themselves or they sent a bunch to the friends. And so with proof of stake, the idea is okay, if you've got them, you can lock them up. And that's what creates more of them. So they're inflationary coins and a lot of the coins are very inflationary. They have some schedule of creating more and more coins. So you have to kind of look at each one and find out what the tokenomics of them are, there's a good website coin market cap, and it gives you a lot of good information about each of the projects and you can find out if they're cap supply, or if they have anything similar to the halving cycle, but mostly that's Bitcoin.

Whitney Sewell:
That, yeah, that's good to know. Or at least a good resource like that to look up. Maybe if there, as we're thinking about investing in different ones, I wanna know more specifics about what they're investing in, right? Cuz it sounds like they can be very different Bitcoin versus Ethereum or those or whatever it may be. So let's move into you. Is the current state of cryptocurrency and real estate, I know cryptocurrency is playing a role in the real estate industry, but maybe you could shed some light there on specifically how and in commercial real estate.

Kristine Cranley:
Absolutely. So there's a couple different areas where cryptocurrency and real estate are

learning to play together. And I think the one you think of most off the bat would be, are people buying real estate with cryptocurrency. So you have these people that are Bitcoin rich, and they bought their coins when they were 1 cent. And so are they purchasing property with them? And is that even a possibility? And the truth is at least in the United States, it doesn't happen a whole lot for a number of reason. It has been done. It can be done, but there's a couple reasons why we're not really there yet where people are buying property with Bitcoin and other cryptocurrency so much. And part of the reason is you could, let's say you have a property list and you could say, well, I'll take Bitcoin or dollars. Well, generally you're gonna find more dollar buyers more quickly than you are a Bitcoin buyer. Now, maybe that's different if it's super high end property that don't move so quickly, you know, several million dollar property. And you wanna kind of give it a little extra glamor by saying, oh yeah. And we'll take Bitcoin for it. Maybe you'll draw some attention that way. But again, with the Bitcoin community, most of the people understand Bitcoin as a store of value and they don't, they're not going to give away their coin. You're never going to. Their coins out of their hands. So there's a funny story, a thing called Bitcoin pizza day, because the first transaction that ever happened with Bitcoin was a man bought two pizzas for 10,000 Bitcoin.

Whitney Sewell:
10,000 Bitcoin. Oh.

Kristine Cranley:
Think about how much money that is today. For the 10,000 Bitcoin that he bought his pizzas with. And so people just kind of have that in mind, like, okay, well it's worth $23,000 today, but what if it's worth a hundred thousand dollars in a couple years? And so do I really wanna make the trade? Now, like I said, it can be done. You're gonna need a real estate agent who understands how Bitcoin transaction works. So how to work the wallets. You're gonna need a crypto real estate attorney that's versed in those things. You'll need some sort of third party escrow that can transfer and hold the coins, which can be done. So there's things called multisignature wallets, kind of like at a bank where there's two different keys to the lockbox. There's ways to hold coins where there's three different keys and you need two of them to move. So it can be done. It has been done. It doesn't happen a lot in the U.S. Another reason is tax wise. If you are just gonna sell your Bitcoin versus buy something with Bitcoin. I'm not a tax lawyer. So don't quote me on this, but as I understand it, you're going to pay the same taxes either way. So if you've got enough Bitcoin that you're willing to spend a house on it, you've probably got a lot of capital gains appreciation on those coins. You probably got them a whole bunch of them a long time ago. So, I mean, unless it's something that's under the table, if you're gonna do it over the table and the way that it should be done, then you are going to have to pay the taxes either way. So there's companies such as fit, pay where they'll convert your crypto into dollars right away. So the seller can receive dollars and it ends up being a bit less of a hassle. Now that's the United States. You may have been hearing when Russia invaded Ukraine and they froze the assets of a lot of the oligarchs over there. From what I understand, a lot of those oligarchs went to Dubai and bought real estate with their Bitcoin there. And so, because those assets are not able to be frozen. If you own the keys, if you have control of the passwords and the keys that make those coins move, nobody can freeze them. And so it does happen in other countries, especially if you're from a sanctioned place that people do by real estate that way. So that's one which is purchasing real estate with Bitcoin. But another thing that a lot of the Bitcoin community opts for is leveraging their cryptocurrency for a purchase. So with

this, you basically lock up your cryptocurrency with some lender and get a loan with that as collateral and a lot of these crypto back loans, they tend to have high interest rates. And you do run the risk that if Bitcoin plummets by 80, 90%, as it is, does at times as we saw recently, then you're gonna need more Bitcoin or more assets to pledge. If you don't want your Bitcoin margin call. Now there is a company that I'm aware of. I think they're in Canada. I don't know if they're here yet called LEDN, I'm not affiliated with them, but as I understand, they are kind of promoting this loans to buy real estate with, and they will count the Bitcoin or whatever crypto as 50% of the collateral. And they'll also count the home itself as 50% of the collateral. So that's a second way where you're using cryptocurrency and asset that you have and leveraging it to get into real estate.

Whitney Sewell:
That's interesting. Don't think I've heard of that before.

Kristine Cranley:
There's lots of ways that you can take out a loan with crypto, but there's always risks to it. So recently Celsius was a common place where you could get a crypto back loan and they recently went into bankruptcy because with the market so down and everything's on the blockchain. So you can even see where people's margin calls hit. And because we talked yesterday about so little liquidity on the exchanges, you can manipulate that price and make it go down and cause people to be liquidated and a lot of bloodshed out there. And so there's always a danger with locking up your coins anywhere because Celsius, when they went bankrupt there sending notes to all their, the people that had assets there, like, sorry, we can't pay you back. There's no insurance, like they're ours and they're gone. And so, sorry. I do think in the future, we're gonna have more and more crypto backed, but there's always a trade off when you give someone else your coins and trusts them to them.

Whitney Sewell:
Wow. Yeah. And I was gonna bring this up a little later, but I wanna ask you now, since you mentioned that would that be as a, as opposed to say keeping them in your own wallet or owning them, you know, through a different platform, just speak a little bit into that.

Kristine Cranley:
Absolutely. So there's this saying in the Bitcoin community, not your. Not your coins. And so having your own wallet, especially if it's something offline, like a cold card or a ledger wallet, or a treasure wallet where it looks like a USB device. It's not that the coins are on the device because the coins are on the ledger, but whoever has the signature password to move the coins is the one that owns them. If you can move them, you own them. And so if you have your coins on an exchange, they are the ones with the private. They are the ones with the passwords. If someone like you often hear about, well, the government, there was something illegal that happened. And so they came in and they got those coins back. Well, what they did was they called up whoever those criminals were. They had them on the exchange and they called up the exchange and they're like, send them to us. And then the exchange sended them to them. And so that's different than when you take those coins into your own possession and there's risks involved with both, right? You have to have good security practices when you do that, but preferably with the signature offline. So that you're the one that has access to it. And just a little fun story about Satoshi Nakamoto, whoever this mysterious figure was that started Bitcoin. So there's a lot of talk about who it is and there's people that have come out and claimed that they were him. But the thing is those

coins. Nobody, he or she, or they mined a bunch of coins at the beginning. They have, I think about 5% of the network is owned by that person, that entity, but they have never moved. Those coins have never, ever moved. And so someone recently was telling everyone that he was Satoshi Nakamoto and people are like, move the coins, show us. And they've never moved.

Whitney Sewell:
That's interesting. It's neat that, Hey, there is a way for you to prove to us that you're the one, right? That's so cool. Any other, I would say barriers standing in the way for investors buying real estate that maybe we haven't talked about you know, with cryptocurrencies or anything else related to real estate and cryptocurrencies that maybe things you see coming in the future that maybe we could be aware of, or I don't know, you know, anything like that. That's maybe gonna even make the process easier to use cryptos and buy real estate.

Kristine Cranley:
Yeah, that's a great question. So there is a third way where property and cryptocurrency meet. And I think it's very promising and I do think it is the direction that we will be going in the future, and that involves the tokenization of the property so that it can be basically fractionalized into the equity shares are fractionalized into a number of tokens and purchase and held by multiple owners. So their equity share is represented by a digital token and it's recorded on the blockchain. And so in effect, it's a way of crowdfunding a property. Now, as we spoke about earlier, these would be considered security tokens, and as such, they fall under the governance of the SEC. And so this kind of setup is at this point approved in the United States for retail. However, it is being done through a 506C exemption investment structure through at least one company that I know of in Texas called own prop. Now I'm not affiliated with own prop. I just discovered them recently, but I thought of you when I discovered them, because I think it's along the lines of what we wanted to talk about today. So not recommending, but interesting what they're doing. They're actually making strides in this area of tokenizing real estate and they already have properties that are open for investment, but again, it's just for accredited investors they're working. It sounds like they're trying to work with the SEC to get it open to retail. But right now, it's just for accredited investors. And for those that purchase shares in the form of tokens. Those owners are entitled to dividends based on the income generated by the property. I believe own prop pays that in dollars at this point. And I think I saw something they might be moving to stable coins in the future, but the reason this is interesting, there's a number of value propositions to this idea of tokenizing real estate. So just to kind of like expand your thinking about where this can take us. So first of all, it makes an illiquid asset liquid, and you eliminate the fees theoretically associated with the transfer of title. So you don't have the closing costs, real estate agents. You don't have the title insurance so it eliminates a lot of the middlemen in these transaction. You could theoretically sell it really quickly. If one day it's approved for an exchange and it greatly reduces the barrier to entry. So you can buy property at a fraction of a cost. Theoretically, you could make it as low as a dollar, whatever you wanted, the price of the share to be, or the tokens to be set at. So democratizes ownership. So even the smallest investor can own real estate assets and they all benefit from the appreciation that happens when money is injected into the money supply. So that we talked yesterday about the poor and the dilemma for the poor, because they don't have assets that appreciate, well, this is a way to get it out to much more people, especially if it's approved for retail. Again, it's not right now. It's just for accredited investors. But theoretically, you could give ownership shares in the form of tokens to employees who work the building. I

mean, we all know that we treat something better, that we're owners of similar to giving out stock.

Whitney Sewell:
That's a big issue in this indication business is because it's not liquid, right. Investors know they're gonna put their hard earned 50 or a hundred thousand or half million, whatever it may be, they're gonna invest. They know it's gonna be there for say three to five years or maybe seven years or sometimes longer, right? So I can see there would be so much value in that, right? If they knew, Hey, well, I can probably sell half for all my shares if I needed to tomorrow or a month from now, or, you know, a year from now. And I can decide that versus, Hey, I know it's not liquid. And we try to make that very clear upfront. So they have that expectation, right? So that would solve a lot of problems.

Kristine Cranley:
Absolutely. And I think own prop, I think their minimum investment is a thousand dollars. A token or a thousand dollars a share, it also enables you to diversify a lot more easier. So with a real estate investment trust, you're buying a clump of properties, but with this, you can pick and choose the properties that you want. Or also let's say you are the owner of a building and you want to raise money for a wing or you don't wanna sell the whole thing, but you want some of it to become liquid for you, you know, or even, you know, kind of like a home equity type thing. If you could sell shares in your home, it just enables just whole new frontiers for making an illiquid liquid asset. That's awesome.

Whitney Sewell:
Well, Kristine, I mean, wow. So many things we're learning about Bitcoin and I can't even remember if I'm saying it right. The Halving or the–

Kristine Cranley:
The Halving.

Whitney Sewell:
Yeah. Halving.

Kristine Cranley: T
hey say both.

Whitney Sewell:
Two of those things I've not heard of before. But even some of the nuances about Bitcoin and how it started, but even to the what we see in the future potentially of how it may become more liquid or, you know, cryptos or being able to, or Real Estate syndication may become more liquid and be open to more people because of the technology, right? And how it may be connected. Hopefully it's easier, you know, to real estate in the near future. So grateful for that. I hope the listeners are, I hope you're learning a ton right from Kristine. I know I am. And I hope you're gonna join us again tomorrow. We're gonna go in more into Bitcoin mining and real estate. I've seen numerous offerings to myself from other people about investing in Bitcoin mining. So I'm looking forward to hearing more from Kristine about what that is. Is that something I should consider as an investor? You know, or maybe you potentially as an investor, as well as you're listening to this, I hope you are becoming

better educated so you can make that decision. We'll see you back again tomorrow. Thank you for being a loyal listener of the real estate syndsication show. Please subscribe and like the show share with your friends so we can help them as well. Don't forget. Go to lifebridgecapital.com, where you can sign up and start investing in real estate today.

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