Smart borrow against BTC to benefit from future price now

Introduction

BTC's Number-go-Up mechanics will lead to deflationary price effects in BTC terms on prices of goods & services over time. Everybody knows the 10.000 BTC pizza story. In this abstract I will present a strategy how to take advantage of this deflationary effect in advance without spending und therefore losing BTC in the present.

This strategy basically allows us to purchase goods & services today with fiat money and enjoy the deflationary price effect of Bitcoin later in the future without spending Bitcoin today.

What is needed:

- We must own Bitcoin the asset today

- We need a service which offers us a variable loan account (essential, because we do not intend to pay either principle or interest back)

Strategy

In a variable loan account the max. loan is determined by the collateral deposited to the account. To effectivly execute this strategy over a long time our core fiat loan **should not exceed a LTV (Loan to Value) of 20** (explanation below). Liquidation of the asset after failed margin call would take place at LTV 85

Proceeds in an example:

We want to buy a car worth 50k USD. We set up the variable loan account and deposit 5 BTC (assumption BTC price is 50k right now) as collateral giving us the LTV of 20 we target. Interest shall be 10% in this example to keep math easy. Interest payments in variable loan accounts are added to the loan, meaning they slowly grow the LTV over time.

We withdraw 50k USD and buy the car.

BTC Number-go-up (NgU) will ensure a higher USD price over a longer period of time. But as we all know there is still tremendous volatility in the price of BTC. This volatility will be covered by the extremely low LTV of 20 we have chosen as you will see in the scenario below.

BTC Price scenarios after 1st. year of the loan:

1) Price does not change at all. LTV goes up to 22 because interest rate is added to variable loan account. We do not extract further loans. We just wait for NgU to come back over longer time and drive the car.

2) Price drops by 50%. LTV goes up to 40 (plus small portion for interest rates depending on when the price drop happenend). NgU will bring down LTV in following years. We do not extract further loans until LTV is back to our comfortzone at 20 but still drive the car.

3) Price appreciates 100%. LTV goes down to 10. **We can now withdraw an additional 100k USD** to bring us back to our comfortzone at LTV 20 on the variable loan account. We might consider to pass on the 1 year old 50k car to our wife and buy ourselfes a nice new 100k car using the additional loan.

Development after year 1

As long as the average % price appreciation of BTC over time meets the interest rate of the variable loan, the fiat loan is essentially free money. This minimum requirement should be achieved in any case if we look at the historical data. **Every price appriciation above that interest rate makes the purchased good cheaper while we use it. Downside volatility is captured by low LTV.**

We can now in any case drive the car it's usual 5 year term and as long as NgU works, it gets cheaper and cheaper for us in BTC terms **while we use it**.

In addition we are able to withdraw more fiat in most of the years when BTC price went up to buy more goods & services which will experience the same deflationary price effect in BTC terms over time.

If the loan provider offers a Visa debit card that accounts to the variable loan account, we can additionally pay for all our daily belongings with the card and enjoy the deflationary price effect for even that.

We never pay back the fiat principle while keeping the BTC asset in our posession.

In this model no taxable event occurs, we only take out loans against our BTC collateral.

Because the BTC collateral is permanently locked while we enjoy cheap living on **BTC that we do not spend** but use as a reverse speculative attack on **the fiat we do spend**, the supply of available BTC on the market is shrinking thus helping BTC's NgU effect even more.

This strategy should effectively work forever as long as we assume that Bitcoin at this stage is mature enough to not see 80-90% pricedrops ever again.

Not financial advice – just my thoughts.