



Cryptocurrencies: A Fad or the Future?

Description

Bitcoin has become a household name in 2017, as its value has more than quadrupled since the beginning of the year. It was launched in January 2009, billed as the first decentralized digital currency. It is no accident that it was birthed at the height of the Financial Crisis. Bitcoin was hailed as an alternative currency that could eliminate the middleman, such as banks or other financial institutions, in transactions. Another player, Ethereum, has entered the cryptocurrency race and has seen growth of over 3,000% this year alone.

Some of the largest Canadian banking institutions, including **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), have committed to an extensive testing phase to use a digital network powered by Blockchain. The new technology is set to revolutionize the way Canadians bank, including dispensing with the signing of documents and showing of identification for applications.

So, what do these have in common? Blockchain is the technology that enables cryptocurrencies, acting as a digital, decentralized ledger that keeps a record of all transactions over a peer-to-peer network. The technology has tremendous appeal to both consumers and large institutions. For the consumer, passing over a third party can eliminate fees, concerns about privacy, and fears of fraud as financial institutions become threatened by large-scale cyberattacks.

For financial institutions, Blockchain holds the potential to radically hasten and improve business processes. Banks are exploring whether the technology could streamline or even upend everything to do with a transaction, including clearing and settlement to insurance.

As exciting as the technology is, it is still very new, and the surge seen in 2017 may scare off investors wanting to jump in. The meteoric rise has some experts worried about a bubble; in the past few months alone, both cryptocurrencies have seen major volatility. Ethereum lost more than half of its value from mid-June to July before rebounding back over the \$300 mark.

The value ultimately lies in the opportunities presented with the rise of these alternatives. Ethereum, for example, has allowed for users to build apps and facilitate transactions for a much-reduced cost. The

rise of Bitcoin, Ethereum, and Blockchains also allows for the use of micropayments. These allow consumers to pay incremental amounts, sometimes a fraction of a cent, frequently over periods of time; for example, consumers could pay for a streaming service like **Netflix, Inc.** on a per-hour basis.

Larger institutions like Royal Bank and TD Bank have acknowledged the incredible potential that the decentralized network provides. For the regular investor, Bitcoin may be an expensive proposition, now valued upwards of \$4,000 per Bitcoin, while Ethereum is trading at \$323 per unit as of August 24.

Blockchain is here to stay as it offers a revolutionary new way of confirming transactions and can eliminate costly steps that younger consumers in particular are eager to avoid. Cryptocurrencies like Bitcoin and Ethereum have exploded on the enthusiasm for this technology and the benefits it provides, but newcomers should be cautious and enter slowly as valuations surge.

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