



## Is Bitcoin a Threat to Global Share Prices?

### Description

With the world economy becoming increasingly digital, a digital currency is perhaps inevitable. After all, consumers generally welcome ease of use in a wide range of products and services, so there is little reason why currency should be any different.

In fact, in recent years bitcoin has become increasingly popular. The digital currency has risen sharply in value and many individuals and even businesses are now becoming more interested in its use. Could this have a negative impact on share prices? Or would the increased use of Bitcoin be a good thing for investors across the world?

### A replacement currency

On the face of it, the use of bitcoin instead of existing currencies may not seem like such a bad idea. If the world was to dump its present currencies in favour of a digital currency, it would end a range of costs associated with having different currencies across the globe. In theory, it would end transaction costs which companies and individuals have to pay when transferring one currency into another. These reduced costs could be passed on to customers in the form of lower prices, but more realistically it would probably mean higher profits for the companies involved.

One benefit of using bitcoin could be an end to foreign currency risk. This may allow share prices to command higher premiums, since international companies would not face the risk of lower sales figures when exchanging a stronger currency for a weaker currency when reporting their financial statements.

### Potential challenges

However, just as companies would no longer lose out to foreign exchange rate fluctuations, they would likewise cease to benefit from a weaker reporting currency. This could mean there is one less opportunity for investors to generate a return, and they would need to focus more heavily on other fundamental areas such as valuations, forecasts and financial strength when assessing the merits of a stock.

In addition, the regulation of bitcoin is somewhat unclear. There is no formal regulator at the present time, and this means holders/users of the virtual currency have no redress should there be unforeseen problems in future. Clearly, if bitcoin continues to increase in popularity and usage then regulation seems increasingly likely. This could take one of various forms and may lead to a more positive or negative trading environment for companies and, ultimately, for investors. In the meantime, though, companies which accept bitcoin face the risk of a devaluation over the medium term.

## Long-term outlook

Looking further ahead, bitcoin or another virtual currency has the potential to cause the demise of central banks. If the world had one currency, monetary policy could be set at a global level. This may cause some disruption between now and then, and could signal a new era for monetary policy on a world level. While this may cause a significant risk for investors, volatility and instability may also present opportunities to benefit.

For now, though, bitcoin remains a niche asset rather than a currency. It could have a significant impact on share prices and the global economy. But until it becomes mainstream there seem to be a range of other, more important risks facing investors. As such, focusing on buying high quality stocks with a wide margin of safety seems to be the best approach to investing for the long run.

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