



Has the Bitcoin Bubble Peaked?

Description

In a sensational reversal, revolutionary cryptocurrency Bitcoin saw its value plummet by a stunning 19% in just four days last week, highlighting just how volatile it can be. This sharp decline in value was triggered by investors streaming for the exits and shifting to Bitcoin's rival Bitcoin Cash, because of the failed bid to expand Bitcoin's block size.

Unlike Bitcoin, Bitcoin Cash increased its block size to eight megabytes, meaning that it can process more transactions at a faster rate, making it more attractive to merchants and those investors who supported the upgrade to Bitcoin. The sharp decline in Bitcoin's price has created considerable speculation that the [Bitcoin bubble](#) may be close to bursting.

Now what?

Bitcoin and cryptocurrencies exhibit many of the classic signs of being in the midst of a bubble. These include sensational claims as to its revolutionary and disruptive nature, extremely optimistic predictions about its future price, manic buying, and a parabolic price curve. While the recent sharp pullback in Bitcoin's price underscores its volatility, it doesn't indicate that the market has peaked or that the bubble is ready to burst.

In fact, there are signs that the feeding frenzy surrounding Bitcoin and cryptocurrencies won't be slowing down anytime soon. Scores of investors are flocking to cryptocurrencies, and speculation is growing at an unprecedented rate. Some investors are even selling their houses and using the proceeds to bet on Bitcoin surging to even greater highs.

Initial coin offerings, otherwise known as ICOs, where tech start-ups create a new digital token or coin that is then offered to the public, continue to soar in volume and generate ever-greater interest. By September 2017, the funds raised through ICOs had grown US\$516 million, or 222 times greater than the total for January.

There are signs that capital raised by ICOs will keep growing at an exponential rate. It is only mid-November, and ICO funding has already reached US\$487 million, or only US\$29 million less than what it was for the entire month of October. This indicates that the speculative fervour surrounding what has

been described by some pundits as a new asset class has yet to die down.

It wouldn't be unreasonable to expect Bitcoin to soar once again when the dilemma surrounding the failure to boost Bitcoin's block size calms down.

So what?

While the bubble may not have burst, it is only a matter of time before it does. The massive run-up in Bitcoin's value is based on the expectation that demand will grow exponentially once it is accepted as a mainstream currency.

Nonetheless, merchant acceptance remains low. An article from *Bloomberg* indicated that retailers generally are skeptical about taking Bitcoin, and that only three of the top 500 online merchants accept it. Bitcoin's extreme volatility not only makes it an unattractive investment and poor store of value, but it is also an inferior as well as unappealing currency.

One online retailing platform that does accept Bitcoin is Canada's own rapidly growing online retailing platform **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). For those investors seeking a high-growth stock that is positioned to benefit from disruptive new technologies and the [transformation](#) of retail industry, Shopify is a very attractive investment. It provides an integrated suite of products that allows retailers to establish an online presence and manage their back office.

Shopify is growing at a rapid rate, as evidenced by monthly recurring revenue for the first nine months of 2017 increasing by 65% compared to a year earlier. That rapid growth will continue, because e-commerce sales in Canada alone are forecast to rise by 40% in value by the end of 2019, while, globally, they are expected to top US\$4 trillion by 2020.

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