



Bitcoin Shows Stock Markets What a Bubble Really Looks Like

Description

If you are searching for evidence of investment bubbles, you don't have to look very far. Apparently, they are all around us.

Global property is in a bubble. The bond market is in a bubble. The stock market is in a bubble. Cryptocurrency Bitcoin is the very definition of a bubble.

They can't all be bubbles, can they?

Bubble trouble

Whenever an asset class performs strongly, somebody somewhere will inevitably claim it is a bubble.

They have been saying it about stock markets every day of the current eight-year bull market run.

However, I find it almost impossible to get worried about the prospect of a stock market bubble.

Crisis management

First, I am investing for the long term and will hold my money in the market even if we get a major correction, and wait for the inevitable recovery.

That is exactly what I did during the financial crisis — I sat tight and didn't sell a single stock or fund.

Instead, I continued to reinvest all my dividends at the new lower price, and benefited when share prices began to recover. I also avoided running up unnecessary dealing charges.

So let the share price bubble burst, and if it does, act quick to pick up your favourite companies at reduced prices.

Bit of trouble

Bitcoin is the bubble that really interests me, because it is quite self-evidently a bubble, one that puts all other current bubbles in the shade.

First, it has relatively few practical uses. It may come in useful if, say, you want to shift money out of Venezuela or Zimbabwe in a hurry, but high transaction costs make it an expensive way of doing your everyday spending.

Nor does it work as a store of value, like gold, because it is subject to such massive volatility.

Despite that, “buy bitcoin” is now a [more popular](#) search phrase than “buy gold” on Google.

Fear and greed

People worry about the inflated valuations of top internet stocks such as Amazon, Apple, Facebook, Google and Netflix, but these companies offer a practical service people are willing to pay for.

In contrast, most people buying Bitcoin today are pure speculators, greedily seeking a quick buck or fearfully buying to avoid missing out.

Excessive optimism has driven the price far beyond its intrinsic value, the very definition of a bubble.

Coining it in

Just because Bitcoin is a bubble does not mean it is going to burst any time soon. As a proud holder of two Bitcoins – I’m rich! – I hope it does not.

Bubbles have a habit of running for much longer than people expect, then blowing up all of a sudden.

One day Bitcoin may establish itself as a reliable alternative to fiat currencies, or it may cease to exist. Nobody knows.

Either way, stock markets will power on. They may be subject to short-term bouts of volatility, but in the longer run, there is nothing crypto or virtual about investing in real world companies.

Stocks and shares may be a little overvalued but if we are talking bubbles, they have nothing on Bitcoin.

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