Why the Stupidity of Bitcoin Is Nothing New to Me

Description

Over the past few weeks, many investors who know nothing about capital markets have been getting extremely wealthy by buying into Bitcoin currency and doing very little else. The problem with this type of situation is that the market has seen it all before, and the end result is basically the same every time: the bubble pops!

The difference between Bitcoin today and the stock market at the time of the technology boom is that in the year 2000, it was mainly people who were independently wealthy who invested large sums of money and took large losses; they could afford to do it. Bitcoin, however, has become far too mainstream and will impact many who do not have the money to lose.

At close to $10,000 per unit, Bitcoin has the potential to wipe out a significant amount of wealth from the middle class. It is far more dangerous than the market crash of 2000.

As many will remember, the NASDAQ hit a high above 5,000 points on March 9, 2000, and took another 15 years to return to its previous glory. The way that it did so was by growing with productive businesses that weathered the storm and turned a profit over time. Along the way, the index was able to let go of companies that went bankrupt and add those, such as **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP), that have become either profitable or have had their share prices increase in value quite substantially. To boot, the index is not only technology driven, but it contains an assortment of companies from various industries.

When considering Bitcoin, investors must remind themselves that it is not a productive business; it is a currency with no government overseeing it. Essentially, the laws of supply and demand are driving the currency substantially higher and making its owners very wealthy. As long as more buyers (those wanting Bitcoin) enter the market and continue buying, then the price of Bitcoin will remain supported, and investors need not worry about a collapse. The problem with this, however, is that the supply/demand factors will eventually lead to a bear market, which will have the same effect, leading the currency lower.

The downside risk will eventually rear its ugly head, as the currency continues to head higher, and investors weigh out the risk/reward situation for this “investment” in comparison to other assets or alternative currencies. Furthermore, one of the biggest catalysts for a major step down will be various governments seeking the taxes that are due from investors. Until that time, however, investors can continue enjoying the fruits of their investment gains by spending their money at online stores that accept Bitcoin.

Unlike a stock, of course, which can be sold, investors may have a harder time getting their money out of the “markets” and taking risk off the table. Only time will tell how this will play out. My expectation is that it will end badly for long buyers and very well for short sellers.

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