Have Cryptocurrencies Killed Off Precious Metal Investments?

Description

There was a time not long ago when buying gold was a means of storing wealth. The reason I said *was* is that there has been an incredible shift in the market over the past few years towards cryptocurrency adoption that has finally accelerated in the past three months.

Bitcoin and, to a lesser extent, some other cryptocurrencies, such as Ethereum, have become what many refer to as “new gold,” seizing that “secure store of wealth” label from gold and other precious metals.

Historically, the allure of precious metals stemmed from the fact that they were scarce, had high demand because of that scarcity, and had a value that was steadily increasing over time.

Much of that viewpoint was tossed out during the epic collapse of precious metals in 2011, which saw the price of gold topple from nearly US$1,900 per ounce to under US$1,100 per ounce several years later.

That drop was not only significant, but it was long lasting.

Established miners, such as **Barrick Gold Corp**. (TSX:ABX)(NYSE:ABX), take out massive loans to finance the setup of mining operations, hoping to recoup those costs when the mines begin operations and the precious metals from those mines are sold at the market rates.

The key problem with the 2011 crash was that miners were not geared to be efficient. The cost of producing one ounce of gold quickly became higher than the value of that same ounce.

What does Bitcoin have that gold doesn’t?

As a store of wealth, gold’s status is steadily declining in lieu of Bitcoin. The simplicity of digital currency, as well as the security of it, make it a much more feasible way of holding and transferring wealth.

Gold is also not that practical as far as purchasing or transporting are concerned. You can’t, for instance, walk into a store or shop online and pay in bullion. Bitcoin, however, is accepted at a growing number of retailers and is far more divisible than a bullion bar or coin could ever be.

Bitcoin also offers significantly more ROI in growth than gold. While gold prices have recovered from their multi-year lows, the growth of precious metals has remained largely flat when compared to the meteoric rise of Bitcoin. As of writing, gold is trading at US$1,257 per ounce, whereas Bitcoin is trading at just shy of $17,000 per coin.

That incredible growth comes at the cost of extreme volatility, however; Bitcoin has been subject to some drops of 20% or higher in a single day.

Are gold miners still perceived to be good investments?

With the countless benefits and potential return opportunity on using Bitcoin as a store of wealth, where does this leave investors of precious metals? Are precious metals still good investments?

The answer to these questions is a resounding “yes.”

While precious metals such as gold are arguably losing their status as a store of wealth in favour of Bitcoin, there are still countless applications for gold that will continue to exist, if not increase, over the coming years.

Factor in the increasingly efficient operations of miners such as Barrick and the focused efforts the company has placed on reducing debt, and an opportunity begins to emerge for investors.

And that’s not even factoring in growth.

Industry pundits have long thought that gold prices are going to continue to rise over the next few years to nearly US$1,400 per ounce. Much of that growth is contingent on the growing demand for gold in India and China, primarily for jewelry and electronics components.

To put it another way, gold investments are still good for your portfolio and will continue to be for the foreseeable future.

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