



Here's What Will Happen When the Bitcoin Bubble Finally Bursts and How You Can Profit From the Fallout

Description

Following the latest U.S. rate hike, the U.S. Federal Reserve chair Janet Yellen shed some light on her thoughts on Bitcoin and related cryptocurrencies. She called Bitcoin a “highly speculative asset” that “...is not a stable source of value, and it doesn't constitute legal tender ... Undoubtedly there are individuals who could lose a lot of money if Bitcoin were to fall in price,” said Yellen, “but I really don't see that as creating a full-blown financial stability risk.”

What will happen when the Bitcoin bubble finally bursts?

Numerous experts, including Jim Cramer, Janet Yellen, and Warren Buffett, agree that Bitcoin is in a bubble. Many cryptocurrencies have been called everything from worthless to a pyramid scheme, so I think it's safe to say that Bitcoin is a bubble that will inevitably pop.

When? That's anybody's guess, but speculators who continue to drive the asset higher are willing to bet that it'll be later rather sooner. There's no doubt it's a dangerous security, but investors who've avoided the crypto hype like the plague may still be vulnerable indirectly should a Bitcoin crash trigger a chain reaction of selling activity.

Could a Bitcoin crash cause a market-wide correction?

Fellow Fool contributor Matt Smith recently wrote a piece looking into the [potential impact](#) that a Bitcoin crash would have on the financial markets. Mr. Smith thinks the bursting of the Bitcoin bubble could trigger the next market correction. I think there will be a correction, but it will be mild in nature, and most of the heat will be felt by a specific tranche of securities.

Bitcoin has fueled a ridiculous amount of speculative behaviour of late. I believe the impact of the cryptocurrency bubble burst will only effect securities with direct and indirect exposure to cryptocurrencies in addition to highly speculative securities, which may cause speculators to dump shares as the crypto bust acts as a wake-up call for those who've been piling in to high-risk,speculative plays.

There will be immense pain, but if you've got a diversified portfolio of high-quality stocks, you'll be isolated from the Bitcoin fallout. Like during the dot-com bust, if you didn't own mostly tech stocks, you would have fared just fine.

Which stocks will take the biggest hits to the chin?

Other than the cryptocurrencies themselves, **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)) and all securities that offer direct exposure to Bitcoin and cryptocurrencies will likely lose a majority of their value over a very short period of time.

What else is exposed?

Stocks that have benefited from the emergence of cryptocurrencies will also take a hit on the chin, like **NVIDIA Corporation** ([NASDAQ:NVDA](#)). I think such stocks will correct mildly and produce long-term buying opportunities for longer-term investors, since NVIDIA clearly isn't just a play on cryptocurrencies.

How about speculative tech stocks with no exposure?

I believe overvalued tech stocks could pull back as well, but don't expect another dot-com bust. The Bitcoin burst will just cause a tonne of investors to move cash from speculative tech names into lower-growth value plays.

We've witnessed a sample of this rotation happening earlier in the month. Although it appears the rotation is over, it may end up happening again once the Bitcoin bubble finally pops — possibly in 2018.

How about non-tech stocks with zero exposure to cryptocurrencies?

There will market volatility that could cause unrelated securities, such as **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), to go lower. These dips will be unwarranted and are nothing more than a sale that smart investors should take advantage of. I think such securities will be minimally impacted, but if the market-wide correction is larger than anticipated, then treat it as a sale courtesy of Mr. Market.

Bottom line

If you've [stayed away from Bitcoin](#) and you've got a diversified portfolio across all sectors, then you've got nothing to worry about. Just have cash on the sidelines and be ready to load up the truck on bargains, as volatility spikes following Bitcoin's imminent implosion.

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