



Warning: Bitcoin Bubble May Burst Anytime

Description

Bitcoin is surging at an exponential rhythm, rising more than 1,500% since the beginning of the year and heading toward US\$20,000. An investor who'd purchased for \$100 of Bitcoin six years ago would have more than \$2 million today. Many believe this price spike is a bubble that can burst at any moment.

Be prepared to lose all your money

The Financial Conduct Authority (FCA), one of Britain's leading financial regulators, has issued a serious warning to Bitcoin buyers: "If you want to invest in Bitcoin, be prepared to lose all your money," FCA CEO Andrew Bailey told BBC's *Newsnight*. He added that risks similar to gambling, as well as a lack of backing from governments and central banks, are evidence that Bitcoin is not a safe investment.

Federal Reserve Chair Janet Yellen called Bitcoin a "highly speculative asset" that "doesn't constitute legal tender."

Indeed, the digital currency has no legal tender and is not governed by a central bank or a government, but by a large community of internet users, and accepted in a growing number of transactions (restaurants, real estate, etc.).

Investing in Bitcoin is very risky, because prices are extremely volatile. People have been looking at the high price and buying more Bitcoin, which causes the price to rise even more. As the amount of Bitcoin that can be put into circulation is limited, any increase in demand immediately translates into a jump in its value. This might lead to the formation of a bubble that will cause big losses when it bursts.

Another danger comes from fraud and hacking. Recently, the Slovenian platform NiceHash was victim of hackers, who stole nearly \$60 million worth of Bitcoin.

Buying Bitcoin is speculating, not investing

You cannot rely on fundamental analysis to assess the value of Bitcoin, as there is [nothing to analyse](#). Buying Bitcoin is thus speculating, not investing.

When you buy a stock, let's say **Dollarama Inc.**'s ([TSX:DOL](#)) stock, you are actually investing in the company. A company is tangible, unlike a cryptocurrency. Dollarama is selling products, which brings revenue, and earnings are what remain after costs and expenses are deducted. The more Dollarama's earnings grow, the more you get.

Sure, there is the risk that a company can go bankrupt, but you can reduce that risk by investing in large-cap stocks and diversifying by sectors and countries.

Even [buying pot stocks](#) such as **Canopy Growth Corp.** ([TSX:WEED](#)) is safer. Medical marijuana is a product that has been legal in Canada for over 15 years. The upcoming legalization of cannabis for recreational uses should increase consumption and thus increase cannabis sellers' revenue and profit.

What about Bitcoin futures?

Future contracts have just been launched by **CME Group Inc.** and CBOE Futures Exchange, which allow traders to have exposure to Bitcoin. ETFs should be created soon, probably in 2018.

Bitcoin futures could actually push down the price of Bitcoin. Futures allow investors to bet against Bitcoin and to settle contracts in dollars, boosting their liquidity.

In addition, since Bitcoin futures allow investors to trade the cryptocurrency without actually owning it, this protects them from volatility in the spot market. This could reduce the demand for Bitcoin, pushing down prices.

CATEGORY

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