Why I'd Always Buy Stocks Over Bitcoin

Description

This year has been a positive year for share prices across the globe. Various indices such as the S&P 500 have delivered record gains, which has led to a large number of investors feeling content about their past investment decisions.

However, few shares have been able to compete with the gains generated by Bitcoin this year. The virtual currency started 2017 at $1k and proceeded to rise to five-digit levels in the following months. Despite this, shares continue to offer a superior risk/reward ratio than the cryptocurrency. In the long run, they seem to be a better investment.

Risk/reward

Although shares are intangible in the sense that they are in an electronic form, they still represent a slice of a real business. This entitles the holder of the stock to a share in the future success of the company. Unless the company has only just been formed, it comes with a track record. This shows how it could perform in future, and can be used to judge the price which the company is worth. Furthermore, a balance sheet provides guidance on how risky the business may prove to be. This helps an investor to determine the risk/reward of a particular stock.

Bitcoin, on the other hand, is difficult to judge from a risk/reward perspective. It does not appear to have a future as a viable alternative to traditional forms of currency or payment methods, so its rise appears to be built purely on speculation. Certainly, the rewards have proven to be stunning this year, but the risks appear to be prohibitively high.

Income potential

While Bitcoin has surged higher this year, its track record shows that it has the capacity to perform exceptionally poorly at times. Therefore, while paper profits are attractive, they are not booked until the asset is sold. The same goes for shares, except that they generally offer an income return in addition to capital growth potential.

Research shows that the reinvestment of dividends can make up a large proportion of total returns in the long run. Therefore, shares can benefit from the impact of compounding, while the lack of income with Bitcoin makes this task more difficult, since capital growth is the only source of potential profit.

Regulations

The stock market has evolved over a long time period. In its lifetime, it has been the subject of various scandals which have led to regulations which generally work for the benefit of investors. The protections available to buyers of shares, however, do not yet seem to be in place in the Bitcoin arena. This could lead to losses for holders of Bitcoin, while the introduction of sudden and unexpected regulations may cause the price of the cryptocurrency to decline.

A lack of regulations and the potential for their introduction increases the risk associated with Bitcoin. As such, shares appear to be the more attractive asset to hold in the long run.

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