



Bitcoin's Demise Moves Closer

Description

Asset bubbles have existed for as long as people have had the capacity to speculate and invest. While the Dutch Tulip mania almost four centuries ago has long been considered one of the largest bubbles of all time, Bitcoin and cryptocurrency mania has eclipsed it. It was only late last year when Bitcoin [peaked at over](#) US\$20,000 before plummeting in a range of violent spasms that saw it trade as low as US\$12,755 before recovering to be a US\$1,000 higher.

Many pundits claimed that the launch of Bitcoin futures would tame the digital currency's legendary volatility, but it only appears to have sharply magnified it and the speculative hype surrounding cryptocurrencies. While Bitcoin keeps attracting ever greater hype and more speculative investment than many ever considered possible only a few years earlier, there are signs that the bubble could be about to burst.

Now what?

Much of Bitcoin's attraction lies in its finite supply, ability to easily facilitate cross-border transactions, lack of regulation, and potential to upend centuries-long banking as well as fiat currency monopolies. It is those last two points which make it particularly appealing to many investors who have lost faith in central banks and their ability to effectively administer the economy.

While fans claim that Bitcoin is revolutionary, possessing the ability to change how currencies operate and payments are made, it is really the underlying blockchain technology that provides it with that ability.

This is where the first hurdle arises for Bitcoin. It is not as scarce or finite in volume as pundits would have investors believe. Anyone with the requisite skills and ability can use blockchain to create a new cryptocurrency, and it is this which has been occurring, as the cryptocurrency bubble has ballooned. In the space of months, funding for initial coin offerings, or ICOs, has exploded to be US\$743 million in November 2017, or US\$227 million greater than a month earlier, and almost 37 times higher than 2016. As more cryptocurrencies are launched the degree of interest in Bitcoin will wane as they attract greater attention.

Then there is the push by many governments to regulate Bitcoin and other cryptocurrencies. South Korean officials recently announced that they are in the process of introducing a bill aimed at banning domestic cryptocurrency trading after having already banned ICOs in 2017. It is also speculated that U.S. regulators are moving to establish sweeping reforms aimed at regulating Bitcoin and other cryptocurrencies, particularly as major exchanges and banks move into to help investors bet on cryptocurrencies. That momentum can only build now that two major regulated exchanges have introduced Bitcoin derivatives.

Given Bitcoin's checkered past and its use by criminals to conduct illicit transactions, it is only a matter of time before financial regulators globally move to clamp down on cryptocurrencies. Once Bitcoin is strangled by regulation, its appeal will wane substantially.

Hacking remains an ever-present risk, and all it would take is another incident of the scale of the 2011 hack of the Mt. Gox exchange, which ultimately saw the exchange collapse and sparked a massive sell-off of Bitcoin, to turn into a rout that spreads into other cryptocurrencies and trigger a colossal crash.

So what?

It is important to remember that Bitcoin is virtually impossible to value; it possesses no utility and has yet to be widely accepted as a currency, even by major e-commerce providers. This means sentiment is driving the price of Bitcoin, and any negative events that impact the confidence of investors could spark a full-blown flight, causing their values to collapse.

Any sharp decline in Bitcoin will impact cryptocurrency miners such as **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)), which have soared because of the cryptocurrency boom. In six months, HIVE has more than doubled, but its collapse could be even faster once the cryptocurrency bubble bursts. It is only a matter of time before cryptocurrencies crash, meaning they are fast shaping up as the [next big short](#).

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