



Now May Be the Time to Buy the Latest Dip in Bitcoin on Near-Term Weakness

Description

Boy, what a week for cryptocurrencies in general.

Following the price of Bitcoin has given many cryptocurrency investors the shakes and has made many technical traders a lot of money (at least those who have followed the momentum trade up and down). After topping more than US\$20,000 per Bitcoin, the price of the world's largest digital currency has dipped to below US\$9,500 and has since rebounded in recent days to the US\$11,000 level.

With most long-term, cautious investors such as myself generally [avoiding cryptocurrencies](#) because of the underlying volatility (risk) profile, those who have hung in there during recent dips have performed very well.

I'm going to take a very speculative view of why Bitcoin speculators may make a lot of money in the months to come, despite fundamental long-term headwinds, which I believe will destroy the value of cryptocurrencies in the long haul.

Looking at a history of Bitcoin slumps (crashes) in recent years, investors buying into short-term weakness have come out ahead:

Date	Range	What Happened
Jan '09 – July '10	\$0.003-0.08	Price increased more than nine-fold in five trading days
Jul '11 – Dec '11	\$31.00-2.00	Price crashes after first "bubble"
Apr '13 – Jun '13	\$266-100	Price crashes yet again by more than 60%
Nov '13 – May '14	\$1,242-440	Price drops again after Mt. Gox and Chinese ban
Dec '17 – Jan '18	\$20,000-9,500	Latest price drop on South Korean potential ban

While previous price movements are hardly representative of what will happen in the future, what has historically been true with most cryptocurrencies, including the most widely accepted, like Bitcoin, is that large price drops have largely been viewed as “par for the course” and have done little to hinder the out-of-this-world increases speculators have benefited from.

With comments over the past few months from South Korean regulators providing significant downside pressure for most cryptocurrencies, indications are that a [softening](#) of cryptocurrency valuations may be only just beginning. That said, the real value of digital currencies such as Bitcoin is hard (some would say impossible) to measure, making these speculative tools ripe for further increases in the near to medium term.

Bottom line

The reality remains that governments around the world will want to get their piece of the action by taxing capital gains made by speculators who have gotten in and out of cryptocurrencies at advantageous levels; large national banks such as **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), likewise, may also be concerned as to the rising value of cryptocurrencies, as these banks have much to fear from the ability of transactions to take place in “dark” markets, providing little room for fees to be extracted from transactions.

Stay Foolish, my friends.

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