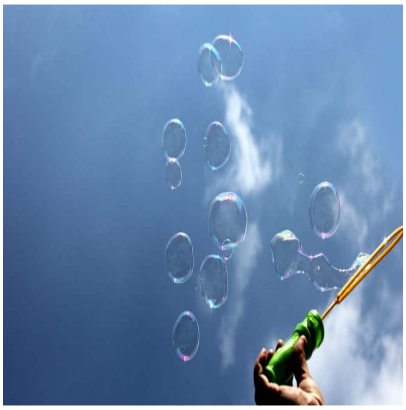

Regulation of Bitcoin Will Cause the Bubble to Burst

Description

Last week, South Korea moved to further regulate Bitcoin and other cryptocurrencies with lawmakers stating that they are seeking to ban domestic cryptocurrency trading. This comes after Seoul banned Initial Coin Offerings, or ICOs, in 2017.

Meanwhile, government representatives in China and Russia have also been talking up the prospects of further regulation for cryptocurrencies. It was only last year when Beijing shut down cryptocurrency exchanges and blocked ICOs in what was proving to be an extremely fertile market for digital currencies.

The massive popularity of Bitcoin and the massive investment boom in it and other cryptocurrencies, notably by less sophisticated investors, is attracting considerable attention from government and financial regulators. It is this which will eventually lead to Bitcoin's downfall and the end of the cryptocurrency bubble.

Now what?

In the space of a year, Bitcoin's value has grown more than 13-fold, and in that time it has experienced massive volatility, rising and falling in value by 20% or more in a single day. That volatility appears to have only been magnified by the launching of Bitcoin futures in December 2017.

An immense degree of volatility is normally a warning sign for investors, highlighting the significant amount of speculative investing associated with cryptocurrencies and the inability to realistically value them. For mainstream assets, such as stocks, an extreme degree of volatility typically signals that a market correction is looming.

In the case of asset bubbles, such as what we are witnessing now with Bitcoin and other cryptocurrencies, volatility typically rises sharply as the end of the bubble nears. Over the last six weeks, Bitcoin has experienced wild swings in its price, plummeting from just shy of US$20,000 to under US$10,000, then recovering by 22% in just four days.

That rising volatility has sparked considerable concern among regulators, particularly as inexperienced retail investors caught up in the hype surrounding Bitcoin are mortgaging their homes and obtaining lines of credit to invest.

The litmus test will be when the U.S. Securities and Exchange Commission, or SEC, moves to regulate Bitcoin. To date, there have been conflicting views and statements as to whether cryptocurrencies are securities and fall within the purview of the SEC.

Nevertheless, SEC chairman Jay Clayton in early December 2017 issued a statement warning investors about cryptocurrency scams and urged caution for digital currencies and ICOs.

There is also — according to an investigation by *Business Insider* — evidence of pump-and-dump scams, where traders artificially inflate the prices of cryptocurrencies to sell them at a profit. That in conjunction with the trading of Bitcoin derivatives on two major futures exchanges has increased the likelihood of regulators moving to further regulate cryptocurrencies.

These concerns and more were the reasons for the SEC recently rejecting applications for Bitcoin ETFs and mutual funds. That further indicates the SEC and U.S. lawmakers are moving closer to determining how to effectively regulate the burgeoning cryptocurrency industry.

So what?

Once Bitcoin is regulated, much of the attraction stemming from its decentralized nature as well as independence from governments, central banks, fiat currencies, and the traditional banking monopoly will evaporate. That, along with its lack of utility, inability to be objectively valued, and failure to become a widely accepted currency, will bring the bubble to a sharp and savage end.

This will hit speculative cryptocurrency stocks such as **HIVE Blockchain Technologies Ltd.** (TSXV:HIVE) and **Riot Blockchain Inc.** (NASDAQ:RIOT), which have risen by 161% and 333%, respectively, over the last year. Notorious short seller Andrew Left of Citron Research announced that he intended to short RIOT, and since then its value has declined by 9%.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSXV:HIVE (Hive Blockchain Technologies)

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