



## Is Bitcoin The New 'Tulip-mania'?

### Description

'Tulip-mania' is one of the most famous asset bubbles in history. It shows that investors can bid up the price of any asset to levels which bear little or no resemblance to their practical value. In the case of tulips, they traded at around ten times average annual salaries, which shows that the bubble was exceptionally large.

Perhaps the most obvious modern day version of 'tulip-mania' is Bitcoin. It has traded close to \$20k despite it seeming to have limited real-world value. As such, could it have the same fate as tulips experienced in the 17<sup>th</sup> century?

### Volatile prices

Of course, it could be argued that Bitcoin has already begun its decline. Having reached almost \$20k in December, it fell sharply to less than half that amount. This provides evidence as to how volatile the virtual currency remains. Even though it is now relatively well-known and often appears in the media, its price continues to move sharply in either direction in a relatively short space of time. This high level of volatility could continue over the medium term.

### Limited application

While the blockchain technology used by Bitcoin could have a number of future applications, the currency itself seems to be somewhat limited in its potential usage. Clearly, there could be virtual currencies which take the place of traditional currencies in the long run. But with Bitcoin being limited to a specific amount, it is unlikely to be large enough to become a successful substitute.

Furthermore, it appears as though it may be too early for a cryptocurrency to be adopted en masse. Regulators do not seem to be particularly positive about its adoption, and regulations could be implemented which make it far more difficult to use. There are also challenges involved in the process of using Bitcoin. For example, it is not possible to reverse transactions, while the infrastructure of the virtual currency seems to be lacking.

Therefore, just as the real-world use of tulips was very limited, Bitcoin also seems to have little appeal for the everyday individual at the moment. This could limit its long term performance and could mean that its price fails to generate [further gains](#).

## Investor sentiment

Of course, that's not to say that the price of the cryptocurrency will fall. As tulip-mania showed, investors can become overly optimistic regarding any asset. And, in time, this can lead to a bubble forming which subsequently bursts.

With Bitcoin lacking any real appeal except as a potential diversifier of a portfolio or because it may offer less positively correlated returns with the economy, its long term future as an [investment](#) seems to be limited.

As such, buying it now could enable an investor to ride the wave of optimism and enjoy the possible further growth of the Bitcoin bubble. But in this scenario, timing is everything. And investors who do not sell out soon enough may see the value of their virtual currency plummet in a short space of time.

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