



## Don't Bite on Bitcoin's Bounce

### Description

Bitcoin's recent bounce past US\$7,000 has many speculators licking their chops once again as the short-term opportunity to make a quick buck appears to have returned with the reverse in momentum.

Such promising developments as South Korea's willingness to "proactively respond to financial innovation in the fourth industrial revolution era" has given cryptocurrencies a new breath of life. There's no doubt that this "nurturing" tone has had a positive impact on the sentiment surrounding crypto after some speculated that an outright ban could be in the cards.

Moreover, the credibility of cryptocurrencies appears to have been given a significant boost following the CFA Institute's (CFAI) decision to add cryptocurrencies into their curriculum for the next calendar year. The CFAI is a very well respected organization within the investment community. So, the inclusion of cryptocurrencies under its new Fintech in Investment Management section may be seen as a rite of passage in the world of legitimate investments in spite of some folks, including myself, believing that cryptocurrencies are a bubble that'll completely die out as tulip bulbs did back in the early 1600s.

The cryptocurrency field is "advancing more quickly than other fields," according to Stephen Horan, managing director of general education and curriculum at CFA Institute. "This is not a passing fad."

Talk about a massive vote of confidence from a well-established and trusted institution!

This move in conjunction with other recent positive developments may reignite the tug-of-war between bulls and bears as crypto becomes a hot topic again after falling quiet amidst its last cool down.

### It's still "worthless artificial gold"

Many pundits including Charlie Munger have slammed Bitcoin, deeming it as some sort of "worthless artificial gold" or "rat poison squared."

Although Munger may not be the most knowledgeable man when it comes to cutting-edge disruptive tech, I think investors would be wise to heed his (and Warren Buffett's) warnings to investors.

Although short-term technical indicators imply potential upside, I think investors should consider the bigger picture in the crypto universe before placing a bet on what I believe is another dead cat's bounce.

The boom and bust nature of cryptocurrencies is nothing new.

As Bitcoin (and the like) become front-page news in the financial media once again, many pundits are going to push their far-fetched price targets, implying ample upside over the short-term. Some of the bigger bulls on the Street think that Bitcoin will hit \$100,000 by the conclusion of the year. That implies an investment today will be more than a 10-bagger in just a few months.

There's no question that this type of commentary will reignite the FOMO (fear of missing out) mentality as it has so many times in the past. But before you bite on these seemingly absurd bullish projections, you ought to realize that the longer-term chart is still trending downward, and if Bitcoin is, in fact, a bubble, it looks like we're in a bull trap phase where the anticipated return to normal may precede another round of capitulation. With that in mind, investors need to be comfortable with losing their entire principal overnight.

With several new cryptocurrencies coming about, I suspect the recent bout of hype may stand to be compounded in the near-term, but unless you're an experienced trader, I will continue to advocate sitting comfortably on the sidelines.

If you [shorted HIVE Blockchain Technologies Ltd. \(TSXV:HIVE\)](#) as a bet against crypto, I'd recommend cashing out of your position, as another leg up could be in the cards for crypto before breaking the next 52-week low.

At this point, many firm believers in crypto are willing to go down with the ship as they "HODL" their tokens through stomach-churning amounts of volatility. This, I believe, will produce a critical support level for crypt currencies like Bitcoin over the medium term, as well as a window of opportunity for a corrupt few to [manipulate prices](#) to take advantage of the HODLers and speculators looking to make a quick buck.

I think Munger put it best. Bitcoin is "worthless artificial gold." So, it's best not to get involved in spite of the recent bounce.

Stay hungry. Stay Foolish.

## CATEGORY

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