Are Bitcoin and Other Cryptocurrencies Worthless?

Description

It has been a wild ride for cryptocurrency investors, as the value for it has whipsawed wildly over the last year. After Bitcoin broke through the US$17,500 mark in December last year, it declined significantly to now be worth less than half of that, triggering a sharp sell-off of cryptocurrency stocks, as investors fled for the exits, fearful that the cryptocurrency bubble had burst.

As result, **Bitcoin Investment Trust** (NASDAQOTH:GBTC) plummeted to be down by 52% down for the year to date, while Ethereum crypto-miner **HIVE Blockchain Technologies Ltd.** (TSXV:HIVE) plunged by a massive 74%, and one-time cryptocurrency darling **RIOT Blockchain Inc.** lost roughly the same amount. The latest Bitcoin rally, which sees the digital currency up by 30% over the last month, has convinced some pundits that now is the time to invest, particularly as they become more widely accepted.

Now what?

If there is one thing that investors should have learned about cryptocurrencies by now, it's that they can be extremely volatile, potentially making or losing double-digit returns in the space of a day or less. While the crypto bubble has not burst as dramatically as many pundits were predicting, there is every sign that digital currencies are indeed in the midst of an advanced market bubble. Even mainstream acceptance of cryptocurrencies, which has been growing since the start of 2018, is unlikely to change that.

The key problem is that they have no intrinsic value, nor a long-established history as an accepted medium of exchange or store of value like gold. This — along with their lack of utility — means that cryptocurrencies can be extremely difficult to value. The supposed utility of Bitcoin and other cryptocurrencies is their ability to facilitate transactions, particularly over the internet and across borders.

Yet according to industry data, only about 100 merchants accept payment via Bitcoin. That doesn't include any of the major internet vendors such as **Amazon.com Inc.** or **eBay Inc.**, while the acceptance of other cryptocurrencies is even lower. This effectively limits their utility as a medium of exchange and makes them virtually worthless as a currency.

Not only is Bitcoin not a widely accepted medium of exchange, which is one of the most important characteristics of any currency for buyers, but it is also not a dependable store of value. This substantially reduces its appeal to vendors. Sellers require a dependable store of value that doesn't fluctuate sharply in value, which, in the case of Bitcoin and other cryptocurrencies, can be 10% or more in a single day.

Then you have the problem of establishing the value of cryptocurrencies. Their lack of utility makes it almost impossible to determine what they truly are worth. Not only do they lack a long history as a recognized currency or store of value, but they are not tangible, being nothing more than digital code with no valid connection to a valuable economic function.

That makes the value of cryptocurrencies extrinsic rather than intrinsic, meaning they have no worth other than the value assigned to them by the market forces of supply and demand. The limited supply of Bitcoin and other cryptocurrencies coupled with the rush of investors seeking to get rich from the latest hot investment are the key factors driving their value. Once you strip those away, the lack of intrinsic value is laid bare for all to see.

While Bitcoin or some derivation of cryptocurrencies will likely be around for some time, particularly because of the usefulness of the underlying blockchain technology, they won't replace fiat currencies as a medium of exchange for the foreseeable future nor become a widely accepted store of value.

So what?

This means that while Bitcoin and its peers could certainly appreciate further in value, their value will eventually collapse once the pool of buyers dries up, similar to what occurred when the tech bubble collapsed.

Already, the price curve of Bitcoin closely mirrors that of a traditional asset bubble that is close to maturing and bursting. This includes an initial steep run-up in value followed by a sharp decline and then a bounce when confidence returns to the market, only to be followed by an eventual capitulation. When that occurs, it will have a disastrous impact on the value of HIVE as well as other cryptocurrency miners and related stocks.

CATEGORY

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1. TSXV:HIVE (Hive Blockchain Technologies)

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