



Why Warren Buffett will never invest in Bitcoin

Description

As one of the world's most successful investors of all time, Warren Buffett is worth taking note of when it comes to his views on investing. As a committed value investor, he has provided countless quotes on how to invest which can easily be followed by private investors. And while he may not always be 100% correct in his judgement, he has been able to outperform the S&P 500 over an exceptionally long time period.

Non-productive asset

That's why his views on [Bitcoin](#) could be worthy of investors' attention. He recently stated that 'the asset itself is creating nothing', when discussing the virtual currency. He went on to say that 'when you're buying non-productive assets, all you're counting on is the next person is going to pay you more because they're even more excited about another next person coming along'.

This is a similar viewpoint to that which Buffett holds for gold. He would rather invest in companies or assets that are able to produce rising returns that, when compounded, can offer significant wealth creation over an extended period of time.

In contrast, Bitcoin appears to lack productivity, as well as real-world usage potential. For example, it is unlikely to ever replace a traditional currency, since its supply is set to be limited over the coming years. It also lacks the infrastructure required to become a substitute for a traditional currency, while regulatory concerns mean that its price may come under pressure at times if lawmakers decide to clamp down on its usage.

Difficult outlook

Buffett has also stated that Bitcoin is 'probably rat poison squared'. Although a number of people have made a significant sum from buying Bitcoin in recent years, the reality is that it is extremely volatile. This could lead to investors losing significant sums of money in a short space of time. And with there being no fundamentals or means of determining its value, it is very difficult to state that it has upside or

downside potential at any given price. Rather, it appears to simply be based upon sentiment at that particular moment in time.

The high level of volatility for Bitcoin could continue over the long run. Certainly, the blockchain technology on which it is based appears to have significant opportunity to be implemented in a wide range of areas. However, when it comes to the cryptocurrency's investment potential, it appears to be akin to a gamble, rather than an investment.

Since Buffett is in the latter camp rather than the former, it is clearly of no interest to him. This doesn't mean that investors should necessarily ignore it, though. A very small proportion of a portfolio could be used for ultra-high-risk opportunities which could make significant gains, or be worth zero over the medium term. But for the main focus of a portfolio, Bitcoin seems to be an opportunity to avoid after what has been a tumultuous 2018.

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