



## Thinking of Investing in Bitcoin? You Really Need to Consider This

### Description

The returns delivered by bitcoin in recent years have been astounding. The virtual currency has increased from around \$146 five years ago to \$6,200 at the present time. That's a return of over 4,100%, which would have turned even a modest investment into a sizeable sum in what is a relatively short time period.

In fact, even though the world economy has performed well in the last five years, indices such as the S&P 500 and FTSE 100 have been unable to come close to bitcoin's returns. The former has gained 64%, while the latter is up by just 8% during the time period. Clearly, owning bitcoin would have been a more profitable move.

### Volatility

The reality, though, is that bitcoin also offers exceptional levels of volatility. For an investor who buys an asset and is happy to not think about it for a number of years, this does not pose a problem. For example, if an investor had purchased bitcoin in October 2013, not given it any thought since doing so, and now checks his/her portfolio valuation then they would be very happy with the outcome.

Most investors, though, do not behave in such a way. Instead, they watch their portfolio holdings closely, and if they are in a loss-making position or are experiencing a difficult period, it can cause frustration and worry. In some cases, this can affect an investor's quality of life.

As a result of bitcoin's volatility, the virtual currency may not prove to be a sound purchase for many investors. Over the last five years, for example, it quickly rose to almost \$1,000 shortly after October 2013. However, it then proceeded to fall to around \$214 by January 2015. An investor buying at \$146 would still be in profit, but would be likely to feel a huge amount of disappointment after not selling at nearly \$1,000. Similarly, while a 4,100% profit has been delivered in the last five years, bitcoin traded as high as over \$19,000 at the end of 2017 versus just over \$6,000 today.

### Suitability

While the return potential from the cryptocurrency is high, its risks and volatility may make it unsuitable for many investors. Stocks could therefore be of greater interest, since their volatility is generally lower than that of the virtual currency.

For less risk-averse investors, there are stocks that are able to offer exceptionally-high potential returns. [Smaller companies](#) in particular may be of interest in this case, or businesses that operate in cyclical industries where they experience boom and bust cycles. While such stocks could prove to be volatile, it may be easier for investors to understand their price movements, since they will usually be related to the financial outlook of the company in question. In contrast, bitcoin seems to be more irrational in its price movements, and is therefore difficult to predict.

So, while the returns from holding bitcoin have been high in recent years, its exceptional levels of volatility may make it relatively unappealing for many investors.

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