



Is Bitcoin The Ultimate Recovery Play?

Description

The last year has been a 'sea of red' for the Bitcoin price. After coming close to reaching \$20,000 in late 2017, it has fallen dramatically to trade at less than 20% of that price today. Investors, it seems, have become increasingly unsure about its prospects, with demand moving lower during a similar timeframe to stock prices experiencing a prolonged correction.

Falling asset prices can, of course, present recovery opportunities. In fact, turnarounds can offer attractive risk/reward ratios due to investors having adequately factored in the risks which may be ahead. As such, could Bitcoin now represent a buying opportunity?

Track record

The virtual currency's fall in price may be disappointing, but it is not unprecedented. It has a track record of exceptionally high levels of volatility, which until now have always been followed by a recovery. For example, having risen to almost \$1,000 by the end of 2013, it proceeded to fall to just over \$200 by the start of 2015. By the start of 2017, however, it had returned to \$1,000 and then proceeded to rise almost twenty-fold to hit an all-time high by the end of the calendar year.

This shows that the virtual currency's past has been filled with volatility, uncertainty and disappointment at times. Investors who are bullish about the prospects for a recovery will point out that it could take time for the cryptocurrency to mount a successful comeback, but that it has always been able to achieve this in the past.

Differing circumstances

The reality, though, is that Bitcoin has benefitted from one of the longest bull markets in decades. It was created during a challenging period for the world economy, but in recent years it has benefitted from investor sentiment being extremely bullish. Just as during previous stock market booms, investors have become increasingly 'risk-on' and this has led them to be more open to new ideas which could deliver high returns in a growing world economy.

Now, though, the outlook for global GDP has deteriorated. Protectionist policies implemented by the US and China could slow down global GDP growth over the medium term. Likewise, a rising US interest rate may introduce an element of caution into investor psyche. This could cause demand for riskier assets such as Bitcoin to remain low. Since its price is based on demand and supply, rather than any fundamentals, it could therefore move even lower if investors become increasingly risk averse during the course of 2019.

Simple solution

While seeking to buy an asset after a price fall can prove to be a sound idea, there may be much better recovery plays available than Bitcoin. Global stock markets may remain under pressure in the near term, but they could offer long-term [buying opportunities](#) as a result of wide margins of safety and growing profitability being on offer. As a result, buying Bitcoin now may not be a sound move compared to the turnaround prospects of a variety of stocks.

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