



## Could Bitcoin Make You Bankrupt?

### Description

The rise and fall of Bitcoin over the last few years has been exceptional. Prior to this, few investors had considered it to be a realistic place to invest, while many had probably not heard of it. Today, not only do most investors seem to have an opinion on the virtual currency, many have decided to invest in it.

While that is understandable on the one hand, the reality is that Bitcoin is one of the most volatile and risky places to invest your hard-earned cash. And for investors who are not careful about apportioning their capital correctly, it could lead to difficult financial circumstances over the medium term.

### Growth opportunity?

For many individuals, Bitcoin may seem to be an obvious place to invest. It apparently lacks correlation with the wider economy, and for many people could become a defensive asset akin to gold. Alongside this, some investors may think that it will become increasingly popular in day-to-day life, with it offering security, simplicity and efficiency compared to traditional currencies.

The reality, though, is proving to be somewhat different. There is no evidence that Bitcoin offers the defensive capabilities of gold. In fact, during recent months the price of the cryptocurrency has declined significantly more than stock markets such as the S&P 500 or FTSE 100. In fact, its price level seems to be even more dependent upon investor sentiment, which makes sense since it is a high-risk, volatile asset. And with regulators seemingly against its usage in the real-world, the prospects for it to become increasingly popular among consumers and businesses seem to be limited.

### Diversification

Although most investors understand the concept of diversification, optimism surrounding an asset such as Bitcoin can lead to extreme risks being taken. As a result, investors may apportion too much of their portfolio to the virtual currency, and this could lead to severe losses. In fact, there is even a chance that Bitcoin could end up being worth \$0. Its limited size and lack of infrastructure, as well as it having no fundamentals, mean that if investor sentiment continues to deteriorate then there could be further

losses ahead.

## Stocks

Of course, stocks can also end up being worth zero. Companies experience bankruptcy, so the idea is not limited to Bitcoin. The difference, though, is that in many cases there are red flags for investors to pick up on when it comes to stocks. For example, high debt levels, poor levels of profitability, weak asset bases and sky-high valuations. Certainly, there are examples where it has been difficult to accurately assess a company's financial position. But, generally, investing in stocks offers significantly greater levels of transparency than buying Bitcoin.

Since stock markets across the globe have fallen heavily in recent months, there now appear to be a number of companies which offer wide [margins of safety](#). With track records of profitability and low valuations, investing in them could be a significantly better move than speculating on Bitcoin.

### CATEGORY

1. Investing

### PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Investing

### Date

2025/08/26

### Date Created

2018/12/22

### Author

peterstephens

default watermark

default watermark