



Forget Bitcoin: Here's How the Smart Money Bets on Cryptocurrency

Description

“When there’s a gold rush sell pickaxes and shovels,” some say. In the case of the recent cryptocurrency boom, that’s precisely what the smart money appears to be doing.

Venture capitalists and experienced technology investors haven’t made major bets on specific cryptocurrencies like Bitcoin, Ethereum, or Monero. Instead, they’ve focused their bets on the infrastructure projects and startups that have cropped up on this new technology’s growing platform. In other words, the smart money is betting on the companies supporting the blockchain ecosystem instead of directly participating.

One such infrastructure company is Vancouver-based **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)). Listed on the **Toronto Venture Exchange** in the middle of 2017’s crypto frenzy, HIVE became the first publicly-traded blockchain company in North America and is now the only pure-play blockchain stock listed in Canada.

HIVE is what’s known as an industrial-scale cryptocurrency miner. The company operates massive server farms that solve the complex mathematical challenges built into the blockchains to mint new cryptocurrency. In other words, they create new cryptocurrency from brute computational power.

Mining is an integral part of traditional blockchain-projects. Miners do the work that secures the network and verifies transactions. This model is known as Proof-of-Work or PoW. Bitcoin, along with most of the top-tier cryptocurrencies are based on this PoW model.

HIVE’s partnership with Genesis Mining Ltd, one of the largest mining solution providers, makes it a major player in this niche market. The company operates two mines, located in Sweden and Iceland, and is likely to generate US\$50 million in revenue this year.

For mining companies such as HIVE, two critical factors that drive performance – the cost of mining and the price of the underlying asset. Like a traditional mining company, HIVE’s profits jump when the equipment and electricity costs are low and the price of specific cryptocurrencies is high.

Over the past year, the value of the entire cryptocurrency market has declined substantially. Major tokens like Ether and Litecoin are down 85% and 80%, respectively. Meanwhile, HIVE's stock price is down 70% and quarterly losses have magnified substantially.

Nevertheless, a sudden spike in the cryptocurrency market will have an immediate positive impact on the company's financials. The company has US\$3.75 million in crypto assets stored in the form of Ether and has already funded the doubling of mining capacity from 24 megawatts (MW) to 44.2 MWs over the next few years.

This expansion of capacity comes at a time when blockchain technology and the use of cryptocurrencies is maturing. Nearly everyone already knows about Bitcoin, but there's a lot of promise spread across the more than 1600 other crypto projects.

At the same time, incumbent leaders of technology and finance are getting more involved. **JP Morgan** recently announced that it would launch its own cryptocurrency for digital transactions and **Amazon** now supports blockchain applications on its Amazon Web Services (AWS) platform for developers and enterprises.

Growing enterprise use is an indication that blockchain technology offers genuine value and could soon be used across large-scale digital platforms.

Bottom line

The blockchain community is waiting for the next catalyst or first killer application to send prices soaring. For optimistic investors, betting on a publicly-listed mining company instead of unregulated digital assets and volatile cryptocurrencies may be a better option.

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Date

2025/08/21

Date Created

2019/02/27

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