



Why HIVE Blockchain Technologies (TSXV:HIVE) Stock Fell 21.8% in August

Description

HIVE Blockchain Technologies ([TSXV:HIVE](#)) has cemented its position as a trailblazer. It is one of only a handful of [publicly traded blockchain companies](#) in the world. However, the company's stock has been on a wild roller-coaster ride ever since it was listed. The stock lost nearly 21.8% of its value in August alone.

That sort of volatility should be enough to scare away even the most thrill-seeking investors. But I believe there's a pattern to the stock's wild swings, and investors who take a closer look could find some value here.

HIVE is a mining company

The original creators of cryptocurrencies designed their technology to mimic physical commodities in the digital world. So, prominent digital currencies like Bitcoin and Ethereum have similar characteristics to gold and oil, such as finite quantities and homogeneity. Similar to their physical counterparts, cryptos must be mined or minted.

The mining process involves using brute computational power to solve a mathematical puzzle. So-called miners like HIVE deploy massive server farms with exceptional computational power to win the mining war and generate as much crypto as possible.

According to HIVE's latest statement, the firm generated 784 newly minted Bitcoin and 28,343 newly minted Ethereum tokens during the three-month period ended December 31, 2018. Since then, the value of both digital currencies has risen, and HIVE has added even more computational power to its arsenal.

The company also holds a portion of this freshly minted digital currency in reserve. At the end of 2018, this reserve was worth US\$10 million. Considering the fact that the reserve tokens are worth more now and HIVE has probably added thousands of Ether tokens over the past six months, it could be fair to assume the reserve has appreciated considerably.

According to my estimates, the value of this reserve could be as much as \$25 million at the moment. That represents nearly a quarter of the company's current market capitalization.

With this in mind, HIVE's business model should be familiar to anyone who invests in mineral, oil, or gold mining companies. The company's stock price should be closely correlated to the market price of its underlying commodity.

High correlation

As expected, HIVE's market value is closely correlated with the price of Bitcoin and Ethereum. Over the course of August, HIVE lost 21.8% of its value, while Bitcoin depreciated 18% over the same period. That's a positive correlation of 82.6.

The correlation with Ethereum (HIVE's reserve currency) is even greater. The value of each Ether token depreciated 20% over the course of August. That's a correlation factor of 91.7%. For context, **Barrick Gold's** correlation with the market price of a single ounce of gold has been 58.9% on average over the past few years.

With this correlation in mind, it should come as no surprise that HIVE Technologies stock fell 21.8% in August and is up 20% so far this month (Ether is up 21.7% in September).

Foolish takeaway

HIVE's business model makes it a mining company for the digital era. Investors can treat the company as a proxy for the price of major cryptocurrencies, especially Bitcoin and Ethereum.

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Date

2025/08/24

Date Created

2019/09/19

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vraisinghani

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