



## Bitcoin Investors: Think the Worst Is Over? Think Again!

### Description

Bitcoin [took a nosedive last month](#), falling from \$13,000 to \$11,090 — a 14.69% decline. Such sharp downturns are nothing new to Bitcoin investors, who are used to volatility. However, this was the first major selloff in BTC after a summer where it traded mostly flat. Over the past year, Bitcoin's volatility has declined considerably, so the recent move came as a surprise. For investors, the big question is whether the recent selloff is the start of a trend or another blip on the screen. We can start by looking at the coin's historical volatility.

### Extreme volatility

Bitcoin is an extremely volatile asset by any standard. It's hard to calculate a beta coefficient for BTC, because it doesn't have a reliable benchmark for comparison. However, it's much more volatile than the Canadian dollar or the S&P/TSX composite index. Recently, Gavin Smith of Panxora said that "compared to historical volatility patterns, a drop like this [in September] barely registers." In other words, a huge downswing doesn't mean BTC will keep sliding. However, it implies that if Bitcoin returns to its historical patterns, more big swings can be expected.

Not that that would discourage your most hardened crypto fan. After all, Bitcoin has risen from \$0 to \$11,090 in just 10 years, while being unbelievably volatile along the way. It's an article of faith among Bitcoiners that each step back will be followed by two steps forward. However, there are some signs that Bitcoin will never again reach its past highs. Chief among them: the fact that hardly anyone is actually using BTC as a currency.

### Little real-world use as a currency

It's no secret that most Bitcoin ownership is speculative. The currency isn't widely used to make purchases outside illegal markets, and such markets are famously unstable, being prone to government seizures and random outages.

As for mainstream adoption, that isn't really taking off. Many services started accepting Bitcoin and

later dropped it. The video game service Steam, for example, dropped its support for Bitcoin after fees got too high.

A 2018 *Bloomberg* story suggested that in May of that year, about \$60 million worth of Bitcoin was used in real commerce. That's a far cry from the amount of total Bitcoin transactions for that period, which suggests that Bitcoin was mainly held by speculators hoping to sell to someone else later. If that's still the case, then there is little "fundamental" reason for Bitcoin to rise.

## Are blockchain stocks any better?

If you're convinced that Bitcoin's best days are behind it, the logical question to ask is whether blockchain stocks are any better.

The answer is most likely no.

In fact, such stocks may be a lot worse.

If you look at a stock like **Hive Blockchain Technologies** ([TSXV:HIVE](#)), it has all the makings of a "good" crypto play. As a coin miner, it can sell coins at a profit without having to pay for them. With climate-controlled facilities, it can reduce energy consumption and mine more cheaply than the average miner. With numerous contacts in the industry, it can stay ahead of trends.

This all looks like a recipe for a profitable crypto operation.

Yet when you look at the company's fiscal 2019 results, you see that it lost \$137 million on a mere \$31 million in mining revenue. The company's operating and maintenance costs alone came in at \$24 million, calling into question whether its climate-controlled facilities really allow for profitable mining.

More to the point, though, this entire operation depends on cryptocurrencies being valuable, which puts shareholders in the same boat as those owning the coins directly. Apart from [a certain measure of diversification](#), it offers no benefit compared to owning Bitcoin itself.

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