



Bitcoin Boosted This Tech Stock 40% in 4 Days

Description

Bitcoin had an eventful week. The price of the digital currency shot up from US\$7,400 to nearly US\$10,500 in a matter of days after Chinese president Xi Jinping announced his country's intention to support blockchain development. This was one of the most aggressive market moves in the crypto world since the bubble of 2017.

However, cryptocurrency enthusiasts and Bitcoin investors weren't the only ones celebrating over the weekend. The sudden move in the market price of major cryptocurrencies had a direct impact on a [little-known Canadian tech stock](#) — **Hut 8 Mining (TSX:HUT)**.

Hut 8's stock price overshot the Bitcoin move, expanding by 40% between October 24 and 28. Since the stock was publicly listed in 2016, its price has been closely correlated with the market value of the world's most popular digital currency. Here's why.

Bitcoin mining

Baked into the blockchain that powers Bitcoin is a steady rate of new issuance. In other words, new Bitcoins are created every few hours, and people from across the world can compete to win it by using their computers to solve complex numerical challenges.

This process is called *mining* because it's based on the traditional method for extracting precious metals like gold and silver. Companies like Hut 8 operate industrial-scale server farms that mine Bitcoin with much greater efficiency.

The firm currently has 94 data centres, all in Alberta, with an aggregate power output of 109.4 megawatts. Long-term power agreements with local producers of natural gas and wind power lower the company's costs of production, while a proprietary range of computer chips enhance efficiency further.

Since it launched, the firm has generated 10,400 Bitcoin altogether. At today's market rate, that is worth roughly US\$94.8 million. Over the past few months, the cost of generating Bitcoin has been consistently lower than the market value of each unit.

Of course, the price of Bitcoin is anything but stable, and the company has been selling some of the digital currency it generates to invest in operations. But a significant portion is held in reserves.

Digital currency reserves

At the end of June 2019, Hut 8 reported digital currency reserves worth \$46 million. The team managed to mine 2,816 BTC in the three months leading up to the report.

In other words, Hut 8 is steadily accumulating value as it generates more digital currency and the value of its underlying assets appreciate. Meanwhile, the company also holds traditional currency. At the end of June, it had \$6 million in cash and cash equivalents. Altogether, these assets represent 29.5% of the current market capitalization.

Foolish takeaway

Cryptocurrency mining stocks like Hut 8 act as a proxy for the market value of Bitcoin. The company's stock price is well correlated with the volatile price of the world's most popular digital currency.

However, as a publicly listed stock, Hut 8 offers a better alternative for investors seeking some transparency and regulatory oversight in this nascent market. The company has tangible assets (server farms), traditional currency reserves (in USD), greater liquidity and a quarterly schedule for earnings reports.

That makes it a safer bet for growth investors.

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vraisinghani

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