Bitcoin’s Rise to $20,000 Was Driven by Manipulation

Description

When Bitcoin was soaring in 2017, there wasn’t a whole lot of rationale behind the cryptocurrency’s rapidly increasing price. And when the digital currency crashed soon after reaching a peak of nearly US$20,000, it served as a reminder to investors as to the dangers of speculation. However, research done by two U.S. finance professors suggests that there was a lot more than just speculation behind the rise of Bitcoin and that a “market manipulator” had a lot to do with it rising to the levels that it did.

The professors reviewed significant amounts of data involving Bitcoin and another digital currency, Tether. Specifically, they were looking at when Tether, which is referred to as a “stablecoin” because it is tied (at least in part) to the U.S. dollar, was being swapped for Bitcoin. In doing so, they had uncovered patterns that were attributable mainly due to a single anonymous trading account, which could represent an individual or a large entity. That account, the professors claim, was able to manipulate and significantly influence demand. And this manipulation happened in 2017 as Bitcoin prices were skyrocketing.

Findings suggest that Bitcoin and digital currencies are too dangerous to invest in

With cryptocurrencies being banned from numerous places, including search engines, there’s definitely been less popularity in Bitcoin, and that has helped prevent too much hype from getting generated since the crash that happened in 2018. Earlier this year, however, we saw a sudden, unexpected spike in the rise of Bitcoin, which again looked to have been the work of possible manipulation, but it was not even close to reaching the same levels as it had in the past.

The volatility and unpredictability of cryptocurrencies makes investing in Bitcoin or any other type of digital currency a very high-risk investment. With large accounts, like the one noted by the professors, to have such a large impact on demand, it undermines the legitimacy of a cryptocurrency’s price at any given point in time. And without trust in the system, there’s little reason for investors to take digital currencies seriously.

Why investors should just stay away

Bitcoin proved to be very powerful in 2017 and in 2018, as depending on when investors bought the cryptocurrency, it could have made them very rich, or very poor. The roller coaster often moved quickly and without warning, making it nearly impossible to predict where it would end up going next. But at the end of the day, if there is one account, regardless of the size, that's able to have such a significant impact on demand for a cryptocurrency, that's not a situation that investors should feel comfortable with.

While there might be some unexpected volatility that happens with stocks, especially when news is released that could impact a company's long-term prospects, it's often justifiable and explainable. With crypto, there's a lot of ambiguity and uncertainty and often little or no explanation behind what's taken place. And if investors can't understand what has already happened, then surely, they wouldn't be able to predict what will happen, either.

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