



Bitcoin vs. Gold: Where to Invest in 2021?

Description

The equity markets have managed to survive a highly volatile year as the world continued to grapple with the COVID-19 pandemic. The stock markets lost 36% in market value in five weeks but gained significant momentum to end 2020 at record highs.

The stock market rally was fueled by tech stocks and companies in the renewable energy or electric vehicle sectors. Alternatively, companies in the aviation, energy, retail, and hospitality sectors are still trading at lower valuation multiples.

The global economies are still in the midst of a recession and governments are pumping in billions of dollars to boost consumer spending. Further, south of the border, Donald Trump has refused to concede defeat in the presidential election, fuelling violence in a few regions.

Does this mean investors should brace for even more volatility in 2021? Is it time to bet on alternative asset classes such as Bitcoin and gold that tend to have an inverse relationship with the stock markets?

The bull case for Bitcoin

Bitcoin is currently trading close to its record high of \$37,000 at the time of writing. In the last year, the price of this digital asset [has grown by a staggering 400%](#) and has created massive wealth for investors.

Bitcoin has in fact been a solid wealth creator for investors. For example, a \$100 investment in Bitcoin back in 2010 would have ballooned to a staggering \$37 million today. While it's not difficult to do a Bitcoin price analysis, the cryptocurrency has been highly volatile and even fallen 90% several times over the last decade.

However similar to the stock market, after every bitcoin price correction, the digital currency has rebounded to trade at record highs time and again. Canadian investors can get exposure to Bitcoin by purchasing **The Bitcoin Fund** ([TSX:QBTC.U](#)), which aims to track the price movement of this asset.

The Bitcoin Fund [has a management fee of](#) 1.95% and investors should note that the ETF is appropriate for investors who have the capacity to absorb a loss of some or all of their investments.

Bitcoin is now attracting investments from institutional investors and while widespread adoption is still a distant dream, you can allocate a small portion of your portfolio to this asset class and benefit from exponential gains.

Will gold prices reach \$3,000?

Gold is a valuable commodity and its price depends on supply and demand. The price of this lustrous metal has an inverse relationship with the U.S. dollar and interest rates. Right now, interest rates are near record lows as governments want consumer and business spending to gain pace amid a global recession.

Quantitative easing measures in the U.S. have also put pressure on the dollar which has driven gold prices significantly higher in the last year. In order to take advantage of rising prices, you can invest in gold by buying jewelry, bullion, gold certificates, futures contracts, exchange-traded funds, or gold mining stocks.

The COVID-19 pandemic is likely to impact the global economy in 2021 which means investors will continue to look for safe-haven assets like gold. Several experts also believe the incoming U.S. administration will implement federal policies that will prove to be inflationary in nature. Historically, gold and other precious metals are a hedge against inflation.

The Foolish takeaway

It seems quite evident that bitcoin and gold might continue to gain momentum in 2021. For investors with higher risk exposure, the crypto space might seem more lucrative given that institutional capital has now entered the market.

CATEGORY

1. Investing
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1. TSX:QBTC (The Bitcoin Fund)

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Author

araghunath

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