Forget Bitcoin: Here's Where I'd Invest as the Dollar Weakens

Description

The profound magnitude of fiscal and monetary stimulus brought forth by the COVID-19 crisis has paved the way for the increased appetite for cryptocurrencies like Bitcoin, Ethereum, and other tokens viewed by some as the "new gold." In my opinion, cryptocurrencies like Bitcoin aren't good currencies, nor have they proven themselves suitable alternatives to gold.

Bitcoin's booms and busts

Today's cryptocurrencies are too volatile to be viewed as a secure place to store one's wealth. At the time of writing, Bitcoin just suffered its worst plunge since March, tumbling around 20% in just over a day.

Stablecoins, like **Facebook's** unreleased digital currency Diem (formerly known as Libra), aim to solve many of today's cryptocurrencies' biggest flaws, and they may very well represent the future of blockchain-based payment systems. Until Diem and its network exist, though, I wouldn't advise investors to touch any of today's wildly volatile cryptocurrencies with a barge pole, unless they're willing to lose a majority, if not the entirety, of their invested principal.

Sure, there's a real chance that Bitcoin could be worth far more than US$40,000 by year's end if people keep bidding up the asset. On the flip side, what's stopping Bitcoin from plunging to zero? I'm not so sure.

The return of inflation calls for gold and Bitcoin exposure

For many of today's investors, inflation has seldom been viewed as a major cause for concern. If you were a saver during the 1970s, though, you'd know just how insidious the effects of inflation can be, especially if you're reluctant to bet big on the "frothy" stock market.

Today, the environment is calling for investors to gain some precious metals exposure. Continued COVID-19-related uncertainties, the low opportunity costs of holding gold and other lowly correlated assets, and the perceived threat of rising inflation are all fine reasons to buy and hold gold. With many young investors likely considering swapping gold for Bitcoin, though, I think gold will struggle to really take off until the Bitcoin implodes again, as it did back in early 2018.

Bitcoin exhibits many of the same features of gold; most notably, it's a scarce asset with a limited supply. Both assets have no intrinsic value, and while Bitcoin has traded, as gold should have in recent months, I'd argue that Bitcoin is more likely to trade like an equity when it matters most: in the next market crash, where the cryptocurrency has the potential to meet (or exceed) the downside suffered by the **S&P 500**.

As such, I'd urge investors to stick with gold if they seek a store of their wealth and protect themselves from inflation. I think gold and gold miners will, in due time, outshine Bitcoin when it goes bust, and people will rush back to the shiny yellow metal that's withstood the test of time.

Foolish takeaway

If you're worried about stimulus and think gold could make up for lost time this year, I'd look to buy one-stop-shop gold miner play **iShares S&P/TSX Global Gold Index Fund**, which provides investors with a front-row seat to some of the best Canadian gold miners out there, including **Barrick Gold**, Warren Buffett's preferred way to play gold.

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