



INVESTOR ALERT: Bitcoin's Plunge Signals Risks With Speculative Investing

Description

Earlier this week, the price of Bitcoin experienced its sharpest two-day plunge since March. The price of the cryptocurrency dropped as much as 26% in only two days. This incredible drop saw approximately US\$185 billion in market capitalization disappear over a very short time frame.

This plunge signals to investors the risks to speculative investing. For those with any risk-aversion tendencies at all, this is probably an asset class to be avoided at all costs. However, I'm going to discuss how investors determined to invest in these speculative assets do so.

Only gamble what you can afford to lose

It's the same thing as going to the casino — if you expect to win at a game you don't understand, things can turn sour very quickly. To what extent the odds are in cryptocurrency investors' favour is unknown. The intrinsic value of Bitcoin and its cryptocurrency peers is determined by the market. What this means is that market sentiment drives a lot of the price action with this asset class.

How investors feel about Bitcoin on a particular day of the week, or the headlines investors read, can drive Bitcoin prices to a greater degree than fundamentals. This resembles a dangerous game of playing with fire for those investing what they can't afford to lose.

The only real way investing any money in cryptocurrencies makes sense right now is to do so with an amount of money that is trivial compared to one's portfolio size. The specific percentage can be up to you, but whatever you're willing to take a 100% loss on is what should be wagered. Personally, no amount of money is worth investing in cryptocurrencies right now for myself. It's just not a true long-term investment and is one that would damage my mental health watching prices fluctuate so drastically.

Buy cryptocurrency in a liquid way, if you're going to do it

Perhaps the [best way to invest in Bitcoin](#), for those so inclined, is through **The Bitcoin Fund** ([TSX:QBTC.U](#)). This fund buys and holds Bitcoin over the long term, and trades on the TSX. Shares

can be bought or sold at any time. Accordingly, this is a highly liquid way to move money in and out quickly and at minimal cost relative to other options. There is a fee of approximately 2% a year to hold this fund, but having that liquidity probably makes sense. Indeed, when prices can move 26% over a two-day period, being able to trade an asset quickly is a good thing.

CATEGORY

1. Investing

POST TAG

1. growth
2. investing
3. market

TICKERS GLOBAL

1. TSX:QBTC (The Bitcoin Fund)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

default watermark

Category

1. Investing

Tags

1. growth
2. investing
3. market

Date

2025/10/01

Date Created

2021/01/14

Author

chrismacdonald

default watermark