



Warren Buffett: Avoid Bitcoin Like Rat Poison

Description

Warren Buffett recently came out swinging against Bitcoin, calling the asset “rat poison” and saying that he’d never invest in it. It wasn’t his first time criticizing crypto but probably his sharpest comment against it. Warren Buffett and his partner Charlie Munger have been railing against crypto for years. Munger in particular has been fiercely critical, essentially viewing the entire thing as a fraud.

Yet you can’t argue with Bitcoin’s returns. Since 2011, the world’s largest cryptocurrency has grown at 293% annualized — a greater-than-4,000,000% return! According to a [December 2020 Cointelegraph article](#), Bitcoin had an 8,900,000% return from its inception until that date. That’s one of the best returns of any asset in the history of civilization, and it seems to be continuing this year.

In this article, I’ll explore Bitcoin’s history to help evaluate whether it’s really a bubble like Buffett thinks, or something more significant. We can start by comparing it to two of history’s most famous “bubble” assets.

Bitcoin vs. history’s famous bubbles

When Buffett calls Bitcoin “rat poison,” what he means is that it’s a “bubble” asset with no intrinsic value. In a 2018 *CNBC* interview, he said he’d put a five-year put on every single cryptocurrency if he could. So, he thinks most of these assets will collapse massively in value.

To evaluate this claim, we can compare Bitcoin to past bubbles that came crashing down: Tulipmania and the South Sea Bubble. Both of these are classic examples in the history of financial mania and are often compared to Bitcoin itself.

The timelines for these bubbles were as follows:

- **Tulipmania:** 1636 to 1637 (one year).
- **South Sea Bubble:** 1711 to 1720 (nine years), with the most pronounced price swing occurring in 1720.

So, the two bubbles Bitcoin is most often compared to were much shorter than Bitcoin's 11-year rise. This is particularly true if you view the 1720 price surge and collapse in the South Sea Bubble as the "true" bubble. While South Sea Company stock had been rising from 1711 on, 1720 alone saw the majority of the increase, with prices up 900% that year. The 1711-1720 price gains were much more modest.

What about Blockchain stocks?

Based on the above comparisons, it doesn't look like Bitcoin is the speculative "bubble" asset that Warren Buffett thinks it is. A bubble is often defined as a "rapid, short-term rise in prices driven by speculative mania." Bitcoin's long-term rise does not meet at least one of the criteria — namely "short term." This has been going on for far too long to be just another bubble.

It's the same story with blockchain stocks like **HIVE Blockchain Technologies** ([TSXV:HIVE](#)). Over the past year, HIVE stock has [risen more than 2,000%](#). That rise has in large part been driven by genuinely good results from the company. In the first quarter, HIVE had net income of \$2.6 million; by the second, it was up to \$9.2 million. On a year-over-year basis, that \$9.2 million profit was up from a \$11 million loss. These are real cash profits that HIVE is generating for its investors, by mining cryptocurrency. Yes, Bitcoin, and stocks like HIVE, are volatile. But they are real economically productive assets that are producing for their investors over the long term.

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