



Warren Buffett: Is He Dead Wrong About Bitcoin?

Description

Warren Buffett invests and teaches others to invest in things that they understand. He usually stays within his competency domain and invests in businesses that he has prior knowledge of, and they fit his definition of a “good business.” He is careful and mostly successful, but it doesn’t mean that he never makes mistakes.

His airline bet is an example, and he admitted that it was an unsuitable investment. It doesn’t negate his investment philosophy or methodology, but it shows that even someone as experienced and learned as Buffett can be wrong about an asset.

Can he be wrong about Bitcoin as well?

Buffett and Bitcoin

[Warren Buffett](#) used to call gold a useless metal, until he opened a position in a Canadian gold mining company. But he seems quite adamant that he would never invest in Bitcoin. He even went as far as calling it “rat poison squared.” That’s quite a pejorative for an asset that’s taking the investment market by the storm.

As an investor, what you need to understand is that Buffett’s views about Bitcoin and Bitcoin being a profitable investment are not as intertwined as many people believe. Buffett considers Bitcoin useless because it has no inherent value, and it’s true. It’s an intangible asset in a highly speculative market.

But that’s only until it reaches its ultimate goal: to be a borderless currency. If a few major governments adopt Bitcoin as an alternative to fiat, it would still remain an intangible asset but would have value akin to a fiat currency.

Even if that future is too far away, Bitcoin can still become a powerful and highly profitable investment if a few sizeable institutional investors enter the market. But on the flipside, by not having any underlying value (one of the primary reasons Buffett dislikes it), it can go down in value faster than many other assets as well.

Buffett's dislike of Bitcoin as an asset is understandable, but he might be wrong if he thinks you can't make money with this asset.

Tangible crypto assets

Up to some extent, the profitability and even safety of many tangible assets are now tied to Bitcoin. An example would be **Galaxy Digital Holdings** ([TSX:GLXY](#)). This [U.S.-based firm](#) now has a market capitalization of \$6.42 billion. In 12 months, its share price has grown over 1,200%, and most of the growth took place after July 2020, when the Bitcoin price started rising up.

The company is quite overpriced right now, with a price to book of seven times and a forward price to earnings of 32.8 times. The company isn't explicitly tied to Bitcoin. It's an investment firm that focuses on digital assets and blockchain. But it's not difficult to imagine where this company's valuation might go if Bitcoin crashes.

Foolish takeaway

This is a dilemma with Bitcoin nowadays. By itself, it might not be a tangible asset, but there are hundreds, if not thousands, of businesses created around Bitcoin and other cryptocurrencies: trading platforms, mining rigs, advisory firms that specialize in crypto, cybersecurity firms, etc. Either all these tangible assets will face severe losses if Bitcoin crashes, or the industry sprouting around Bitcoin might sustain it out of necessity.

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