



## 3 Reasons Why Cryptocurrencies Are in a Huge Bubble

### Description

Cryptocurrencies have been on the rise again lately, making more and more headlines. Several factors have led to the latest rally in Bitcoin's valuation against the U.S. dollar. The latest catalyst for Bitcoin was **Tesla's** ([NASDAQ:TSLA](#)) US\$1.5 billion acquisition of the cryptocurrency's units. Tesla also plans to begin accepting Bitcoin as payment for its products in the future.

### Tesla is riding on Bitcoin's recent success

The breaking news about Tesla's Bitcoin investment triggered a [sudden surge](#) of people buying the world's most popular cryptocurrency. Bitcoin began trading at its highest levels soon after Tesla's purchase, and it has continued its momentum. At writing, Bitcoin is worth US\$49,142, and its price keeps fluctuating daily.

Tesla's move suddenly increased Bitcoin's valuation, allowing Elon Musk's company to enjoy substantial profits in a matter of days. Despite all the positive momentum, there are a few reasons why cryptocurrencies are in a massive bubble.

### Reasons why cryptocurrencies are in a huge bubble

More than two years after U.S. lawmakers warned that cryptocurrencies are the mother of all scams and bubbles, economics professor Nouriel Roubini remains bullish about Bitcoin. Despite Tesla's investment in Bitcoin, he believes that no other legitimate companies actually use Bitcoin as a currency.

Here are some of the reasons he has cited as cryptocurrencies being a huge bubble that is ready to burst. First, cryptocurrencies do not have inherent value. Since the fundamental value of Bitcoin is zero and it would be negative if you account for carbon tax due to its energy-intensive production.

Aside from Tesla's future plans, there isn't much legitimate use for Bitcoin as a currency. People typically use currencies for transactions, and Bitcoin is used primarily as an asset to hold rather than an actual currency.

Bitcoin transactions would not be scalable, even if the cryptocurrency became more popular. With Bitcoin, you can do five transactions per second. The Visa network does 24,000 at the same time. Its scalability simply can't match up.

## Canadian stock to consider

Elon Musk became the wealthiest man on the planet before Tesla invested in Bitcoin. He might have grown his wealth significantly through the investment in Bitcoin, but his net worth came due to the rise of his electric car manufacturing company. Acquiring Bitcoin is just a way for Musk to diversify his capital to get better returns. The Tesla stock will likely remain his primary growth driver.

Tesla's valuation rose eight-fold in 2020. Musk owned 170 million Tesla shares by the end of 2019. The sudden increase in Tesla's valuation made him the wealthiest man on the planet. Investing US\$1.5 billion in Bitcoin is far easier for someone whose net worth is US\$177.2 billion at writing.

The increasing demand for electric vehicles means that companies like **Lithium Americas Corp.** ([TSX:LAC](#))([NYSE:LAC](#)) might become more attractive assets to consider adding to your investment portfolio. With the rising popularity of electric vehicles, there will be greater demand for the lithium-producer.

Tesla has plans to begin its own operations to process lithium for its batteries in Nevada. Lithium Americas already has mines in the region that it can use to cater to the growing demand. There is a possibility that Tesla might acquire Lithium Americas to get direct access to its supply and create its own source for lithium batteries.

Lithium Americas has had a fantastic 12 months, gaining 285% on the stock market in that period. As electric vehicles become more popular, it could spell great news for the company.

## Foolish takeaway

Cryptocurrencies might seem like an attractive investment. However, they are [dangerously volatile](#). If you are considering investing in Bitcoin, you can consider buying the cryptocurrency. However, I would strongly advise only investing as much as you are willing to lose. For more conservative investors seeking growth backed by fundamentals, Lithium Americas could be a better bet in the current market environment.

### CATEGORY

1. Dividend Stocks
2. Investing

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#### **Date**

2025/06/28

#### **Date Created**

2021/02/19

#### **Author**

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